ELECTION ISSUE

Did Reaganomics Work? • The Conventions Lampooned
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reason

Free Minds and Free Markets

November 1984/$2.00

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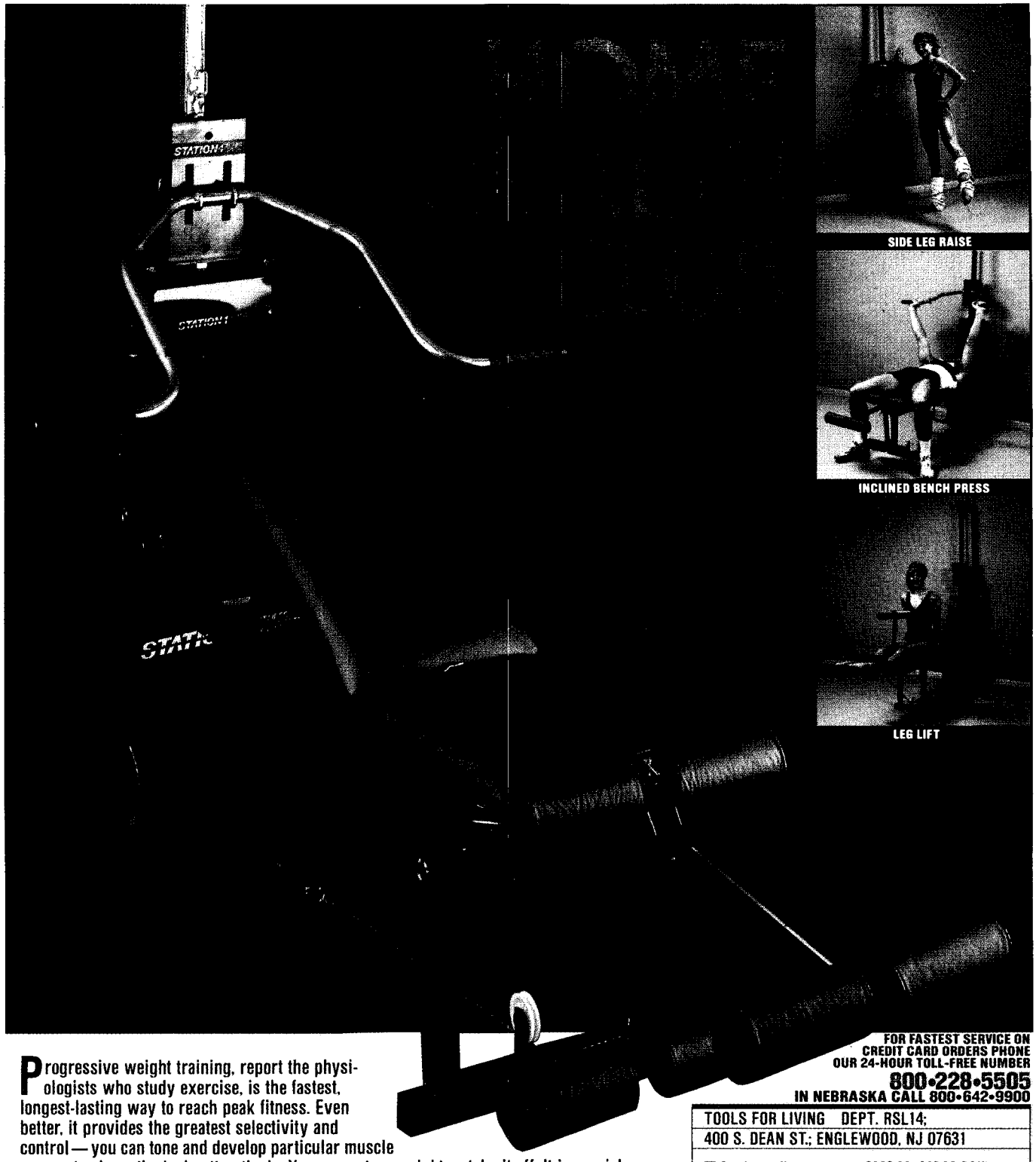

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NOVEMBER 1984 / VOL. 16, NO. 6

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Free Minds and Free Markets

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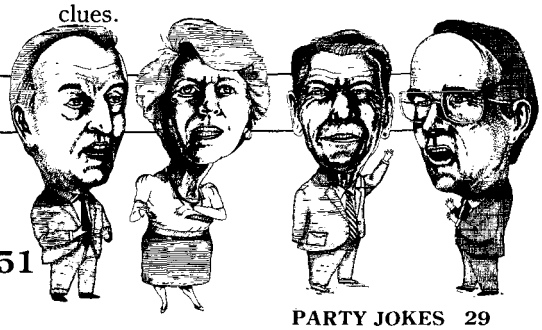

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NOTEs

This month's cover story, about the revitalization of Miami by Cuban-exile immigrants, has a special meaning for me. I grew up in the Miami area during the 1950s. Like my few Cuban classmates, I cheered the successes of Fidel Castro in revolting against a corrupt dictatorship, and later shared with them the horror of finding out that this hero was actually a Communist.

At summer jobs during my college years, I came to know recently arrived Cuban exiles, nearly all of whom had escaped from Cuba with little more than the shirts on their backs. Even then, 1962-64, I was impressed with their drive and determination. Many Miami residents resented the "invasion" of Cubans, and of course cultural differences *are* a reality. But no one can deny the tremendous benefits created by the entrepreneurial activities of these people—benefits ably documented by George Gilder in an article adapted from his new book, *The Spirit of Enterprise.* It's a powerful counterargument to those who see immigrants only as consumers, forgetting about their role as producers. It begins on page 21.

It is with sadness that we report the death, on August 13, of a long-time advocate of freedom, economist Percy L. Greaves, Jr., at age 78. Among his best-known books were *Understanding the Dollar Crisis* (1973) and *Mises Made Easier: A Glossary for Ludwig von Mises' HUMAN ACTION* (1974). Greaves contributed an article on the Pearl Harbor controversy to REASON's February 1976 issue. Having served as chief of the minority staff for the Joint Congressional Committee for the Investigation of the Pearl Harbor Attack in 1945-46, Greaves had a particular interest in this subject. Before his death he completed a book on the subject, which his wife, Bettina Bien Greaves, hopes to see through to publication.

—R. W. P.

We've added Doug Bandow to our roster of contributing editors—and pressed him into service already. His election-issue Viewpoint, "The Choice We Don't Have," appears on page 47.

Doug has a law degree but for the last several years, after a stint as special assistant to President Reagan, has employed his writing talents as the editor of *Inquiry* magazine. *Inquiry*, another magazine of ideas and in the same ideas ballpark as REASON, published its last issue in June. The publishers of *Inquiry* have arranged to have REASON fulfill the remaining terms of readers' subscriptions. We welcome *Inquiry* subscribers aboard and hope that REASON will help fill the gap left by its demise.

Immigration seems to be one of those really troublesome issues for many people who are generally devoted to liberty. Both a May Trends item on the subject and Joseph Martino's September article, "Two Hands, One Mouth," generated a number of letters from readers. (Some of the recent letters appear on page 8.)

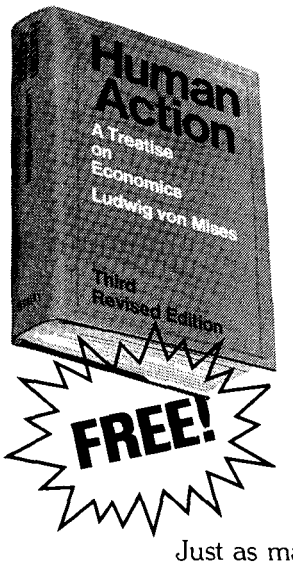
Indicative of the emotion that can surround the issue, one reader (who would not identify himself or herself) wrote in response to the Martino article: "Not only is this stupid, it is evil and dishonest. Why the hell are not Nigeria, Kenya, and a hundred other armpits rich? Their jobs should be right there, to make them rich." The letter writer went on to rage: "Bastards like you should be jailed. My subscription will *not* be renewed."

Editors always figure they win some and lose some. But we hope most of REASON's readers are at least willing to consider the arguments even on such sensitive subjects.

If you want to send a message to Congress about the alarming rate at which that body is spending your and future taxpayers' money, you can join lots of other Americans who are signing a petition being circulated by Citizens Against Waste. If a petition hasn't reached your office or neighborhood yet, you can contact the new grassroots organization at P.O. Box 1000, Ben Franklin Station, Washington, D.C., 20044. And if you have any doubt about Congress's *role* in all that spending, check out Peter Samuel's article on page 42 of this issue.

REASON gets around! In the same month that we heard from New Yorkers that "we're seeing REASON all over the newsstands in New York" (September was our debut on East Coast newsstands), a REASON T-shirt showed up on a *Newsweek* "Newsmaker" (Sept. 17, page 71). We got a big kick out of seeing the magazine's logo on Graham Nash of the rock group Crosby, Stills & Nash.

—M. Z.



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Robert W. Poole, Jr.

Negative-Sum Nonsense

Suppose you really had it in for the Big Banks and the Capitalist System. Your objective: to trigger a collapse of the international financial system due to widespread debt defaults by Third World nations. How best to pull it off?

Try this on for size: slash Brazil's exports of alcohol, shoes, and steel; South Korea's exports of textiles, shoes, and steel; and Mexico's exports of beer, farm produce, and steel. Without their earnings from exports—from production and trade—Third World countries have no hope of paying off their debts. Yet choking off those exports is precisely what many of our elected representatives have been urging.

Sad to say, government interference with trade has a long history in this country, even during the postwar period of worldwide tariff-cutting. President Kennedy gave in to pressures to protect the textile industry from competition. LBJ's weakness was meat imports, while Richard Nixon intervened to shield the ailing steel and (again) textile industries. Jimmy Carter extended those protections, adding new ones for domestic sugar and footwear producers. And even the administration of Ronald Reagan, filled with officials flaunting their Adam Smith ties, has intervened massively to shield domestic auto companies, steel companies, sugar producers, motorcycle makers, and textile firms from competition. Today, approximately *one-third* of the US manufacturing industry is insulated from international competition by government intervention.

To be sure, President Reagan did reject the recent plea of US copper miners for import quotas. But two weeks later he turned around and granted a similar plea from the much larger steel industry—a decision that will hurt far more people, at much greater cost. Yet every argument cited by Trade Representative William Brock against copper quotas applies equally well to quotas on steel: they would harm debt-ridden Third World producers, cost more jobs in steel-using industries here at home than would be saved in steel-making firms, impose higher costs on consumers, and encourage further protectionism by other countries.

The administration tried to soften the impact of its decision by calling the quotas "voluntary," but they will be about as voluntary as paying your income tax. According to the *New York Times*, the White House "said it would block access to the American market for countries that refused to limit their steel shipments to the United States." In other words, there he goes again—just like the four years of "voluntary" Japanese-car quotas, which have cost consumers billions.

And cost billions this one will, too. The Congressional Budget Office estimates that the quota limit requested by the steel industry—15 percent of the market—would end up costing consumers $7.8 billion a year, while saving only 34,000 steelworker jobs. Using somewhat different assumptions, the Federal Trade Commission (FTC) came up with a lower estimate, but all such studies yield a net cost of between $100,000 and $200,000 per year for each job saved—far more than the pay of a steelworker.

There's a good reason why thus "protecting" steel turns out to be a negative-sum game. By establishing import quotas, government forces millions of people to act against what they can see is in their best interest—to buy from the most efficient supplier. If it were more efficient for Caterpillar Tractor to buy all its steel from US steelmakers, it would not take the force of law to get the company to do it. So the costs of protectionism will *always* be greater than the benefits. By definition, a less-efficient outcome is being imposed on people.

No one should be surprised, then, by study after study that documents the harm. The FTC found that the cost of protection was 3.5 times the benefits in the sugar industry, seven times the benefits in clothing, and *25 times* the benefits in shoes. Robert Crandall of the Brookings Institution puts the cost to consumers of the Japanese auto quotas in 1983 at $4.3 billion—about $100,000 a year per job saved.

Perhaps the most insidious danger is that the new protectionism may lead to imposition of an "industrial policy" by the back door. Several members of Congress have urged giving the International Trade Commission (the agency that recommended imposing quotas on copper and steel imports) the power to "help domestic industries reshape themselves" as a condition of protection. Termed "conditionality," this idea is being promoted by people such as former Carter aide Stuart Eizenstat and Walter Mondale. Just prior to Reagan's steel decision, Mondale urged quotas that would halve steel imports. The "condition" would be creation of a business-labor-government committee tasked with restructuring the steel industry.

Fortunately, there are some rays of hope in all of this. More and more opinion leaders have learned to see through protectionist rhetoric and to recognize it for the special-interest, negative-sum nonsense that it is. And broad-based political opposition is beginning to coalesce. Twenty major retail chains (including Sears and J. C. Penney) have formed a Retail Industry Trade Action Coalition to fight for free trade. For the first time in 70 years, the Constitution Industry Manufacturers Association has opposed a specific protectionist measure—the steel quotas. Farm groups, including the American Farm Bureau Federation, the National Grange, and the corn and soybean associations, have also become more activist. "Decisions on steel, copper, and textiles have a direct impact on large grain sales," notes the Washington rep of the National Corn Growers Association.

So the makings of a powerful coalition for free trade—the kind that brought about airline and trucking deregulation—are nearly in place. What's missing so far are the consumer activists: Consumers Union, Consumer Federation of America, and Ralph Nader's Congress Watch. If these groups could break free of their reflexive alliance with labor unions—as they did on transportation deregulation—the advocates of higher prices and reduced choice might start getting the horselaughs they deserve. And all of us, including the Third World, would be much better off.

Robert W. Poole, J.

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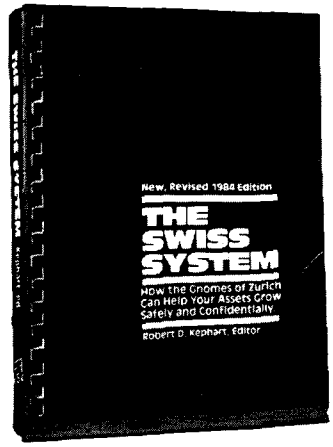
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Letters

Apostate of Liberalism

Aside from the economic demerits of his and the "limits to growth" school's views, as enunciated by Joseph P. Martino ("Two Hands, One Mouth," Sept.), Colorado governor Richard Lamm's solution of banning all immigration flies in the face of the moral and social elements of the liberal ideology of which he would credit himself with being a staunch apostle. Does Governor Lamm propose, for instance, to ban, under what he misconceives as Americans' material self-interests, the boat people of Southeast Asia or Soviet Jews or blacks escaping apartheid in South Africa?

Governor Lamm's views, if implemented, would permanently dim the image this country has always represented abroad, and destroy the philosophic basis on which we were founded and built. Would internal population controls then be far in the offing, to be followed by ethnic, sex, and religious quotas?

Frederic Wile
New York, NY

Immigration Dissent

I enjoyed the September issue of REASON. It is the first one I have read. However, I don't like Joseph Martino's apparent advocacy of unlimited immigration into the United States as stated in his article, "Two Hands, One Mouth."

If a nation won't control its borders it will become ungovernable. Read the epilogue of Will Durant's book *Caesar and Christ* to find out what happened to Rome and see the parallels to the United States today. Also, no nation can allow physically or mentally ill persons, criminals, or unemployable persons to enter it without incurring grave problems. Remember the Mariel boatlift of 1980, for one example.

One of the greatest things about the United States is the land it encompasses. This is a magnificent land, and I'd hate to see it become like Hong Kong, a city Mr. Martino admires so much, with 4,900 persons per square kilometer. Finally, why can't people stay in their native lands and create new jobs for themselves there instead of everybody coming here and causing great cultural changes in our society?

L. M. Townsend
Moberly, MO

Mr. Martino replies: As I state in my article, the degree to which we open or close our borders is another subject entirely, which I did not address. However, I agree we have every right to limit immigration if we choose. My point was simply that when we decide how many people to allow in, we should make the decision for the right reasons. Immigrants will not take jobs away from citizens, nor will they deplete our resources. However, that does not mean that there may not be valid reasons for excluding people, including criminals.

Most would-be immigrants, however, are not criminals. They are simply people looking for the opportunity to create wealth, just as Dr. Townsend's and my ancestors once did. They are denied this opportunity in their homelands by governments that discourage productivity and confiscate wealth.

Finally, even if the entire world population of 4.57 billion occupied the 9.363 million square kilometers of the United States, the population density would be 488 per square kilometer, about a tenth that of Hong Kong. We are in no immediate danger of becoming overcrowded.

Europe's Free Defense Ride

Ted Galen Carpenter's "Standing Guard Over Europe" (Aug.) presents a clear examination of one of the major aspects of the US budget deficit: the large expenditures by the Defense Department, not for the defense of the United States, but for other countries. Recent reports from the Congress that 58 percent of the American military budget is for the defense of Europe confirms the analyses made by Earl Ravenal, most recently in *Defining Defense* (Cato Institute, 1984).

When the debate on the first commitment of troops to Europe occurred, no one believed that for decades the American taxpayers would patiently pay for the defense of Europe (and Japan), while the latter received a free ride on defense taxes and thus could sell their goods more cheaply. The "Great Debate" of 1951 brought forth some of the greatest criticism, by Herbert Hoover, Robert Taft, and Joseph Kennedy, of the bases of interventionist foreign policy. (Taft's critique can be found conveniently in *Prophets on the Right* by Ronald Radosh.)

The criticism of the nonintervention-ists of the 1940s and 1950s has been confirmed completely, yet the dominant post-war bipartisan foreign policy continues its destructive way unchallenged except in a few magazines such as REASON.

Leonard P. Liggio
Menlo Park, CA

A Familiar Story

It is indeed easy to see the parallel between the Melanesian chieftains and our own central-planning advocates, as suggested by John Baden and Tom Blood in "Abracadabra Prosperity" (Sept.). One can imagine that the failure of the "airstrip" to attract the bounty of the "Cargo Gods" would be blamed not on the chieftains who concocted the scheme, but on the average working stiff. The chieftains (being chieftains) would simply state that the people were spending too much time tending their livestock and gardens and that henceforth all must give more of their productivity to the project. Sound familiar?

Warren Michelsen
Page, AZ

One-Term Robbers?

Jack Douglas's proposal to make Congress a one-term job ("Reining in the Imperial Congress," Aug.) is just a case of "good governmentism." It may (or may not) be an improvement, but by its very nature of trying to clean up the government, it ignores the fundamental flaws of government and can be of no more than minor importance.

A Congress limited to one term *might* do less looting, but might not: not having to worry about reelection, congressmen can concentrate on feathering their own nests. But in either case, the money wasted by Congress on Congress is a rel-

(Continued on p. 63)

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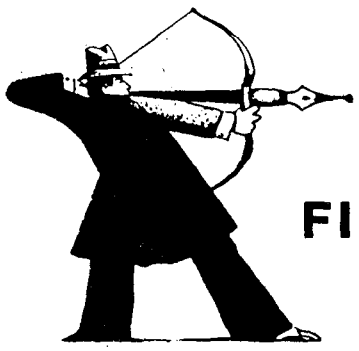

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brickbats

Prepared for the worst during the Democratic National Convention, San Francisco officials lined up as many beds as they could for the city's psychiatric hospitals. The officials were concerned about the effect power struggles might have on the mentally ill. Unstable people might flee because of the commotion and the police, and wander around disoriented, said Dr. Larry Meredith of the city Health Department. "There are many people in this town who exist on a very thin edge," echoed Dr. Thomas Peters, head of psychiatric services in San Francisco jails. But the problem never presented itself. The people the good doctors should have been worried about were all inside the convention hall.

It was bound to happen. The California kiwi fruit started gaining in popularity, served in salads or as a garnish for sandwiches. So naturally, the Kiwifruit Growers of California want the US Agriculture Department to issue a kiwi marketing order to control the quality and packaging of the fruit. The order would establish a 12-member board, mostly kiwi-industry people, to set standards. Of course, this would result in formation of a kiwi cartel (just as there are government-enforced cartels for oranges and many other agricultural products), forcing the destruction of at least 15 percent of the crop and causing the price to rise substantially. Guess who's supporting the kiwi growers in their attempt to control the market? None other than the "supply side" Reagan administration. California agribusiness is a big campaign contributor.

Life in Jefferson, Texas, is so fascinating that the biggest issue in town is whether or not mules should be diapered. Mule buggies have been a tourist attraction for 18 years and travel a three-mile tour of antebellum homes and churches. One faction says the mule droppings on downtown streets are an eye- and nose-sore, while the other faction believes that mules weren't meant to wear Pampers. Every jackass in town has an opinion on the subject.

Crabb, Texas, used to be a nice little unincorporated town where you hardly noticed any local government at all. Then Brian Zimmerman was elected mayor. Brian is 11 years old. Brian has big ideas. After decades of getting by just fine without a fire or police department, Brian changed that. He also had a weight limit passed to keep big trucks off the road, and a leash law for dogs. Now the little snot wants to pass a curfew, and not just for juveniles. "If you're on the streets of Crabb after 10 p.m., you're probably doing something wrong," the tiny despot says. Somebody ought to wash the little statist's mouth out with soap.

Kansas City fire officials beamed with pride when their 12 brand-new fire trucks were delivered to replace aging pumpers and vehicles. There's just one problem: With automobiles parked on both sides of the streets in the city's older sections, there is only 10 feet of clearance—the new trucks need 13 feet to unload equipment. Hope they carry extra-long hoses.

The inherent foolishness of affirmative action quotas hit home in Palm Beach, Florida. When the County Commission agreed to set aside four permits for minority companies to provide taxi service at Palm Beach International Airport, it was forced to pick one group over another. "We can't win on this," lamented Commissioner Dennis Koehler. "When you vote for the motion, you exclude women. If you vote against it, you exclude blacks." White women were barred under the motion. Instead of bemoaning the terrible choice it had to make, the commission should have considered why there was any need for taxi permits at all. A free market for cab rides would solve their problem.

Ice cream lovers beware! Your local malt shop may be finking for the Selective Service. Seven years ago, brothers Eric and Greg Hentzel invented a fictitious friend named "Johnny Klomberg," gave him their own Palo Alto, California, address, and signed him up for a birthday club at Farrell's Ice Cream Parlor so that they and their "friend" could get free ice cream. The parlor didn't fall for the scam, but Uncle Sam did. "Johnny" just received notice reminding him to register for the draft. Col. Will Ebel, assistant director of the Selective Service System, says his agency has a computerized list from the ice cream parlor with the names and addresses of young boys from 12 Western states. "Johnny Klomberg, Uncle Sam Wants You." Think about *that* the next time you enjoy your tutti-frutti.

—MARK EDWARD CRANE

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These questions used to really stump me. That was a few years ago.

My wife and I then lived in Denver, Colorado, at 2545 South High Street. We paid $135 a month rent for a cramped, tumbled down house. My wife was expecting our second child and we were flat broke. I felt desperate and forced into a corner. I had to borrow $150 from my father and another $150 from my father-in-law just to buy the groceries and pay the rent. If that wasn't enough, I was several thousand dollars in debt.

Things are much different now. Last year I could have retired and lived off the income of my one million dollars in real estate holdings. (Incidently, almost all of the income from the real estate is tax free).

Since I had worked 20 to 40 hours a week, I know that I didn't work even 10 times longer or harder than you. And with my C-average from Ames High School (located in Ames, Iowa), I'm quite certain that I'm not any smarter than you.

If hours, efforts, or brains are not what separates the rich from the average guy who is swamped with debts and very little income, then what is?

I learned the answer to that question from an old fellow in Denver. This fellow worked in a drug store stocking the shelves. Very few people knew that he had $200,000 in the bank, all of which he had earned starting from nothing.

Within a year after meeting him, I was told and shown the same thing by a young man who had recently earned over a million dollars. By this time, I began to realize that what I was being shown was truly a remarkable and workable way to grow rich.

I began to apply the principles and methods I had been shown. The results were amazing. I couldn't believe how easy it was, in fact, it seemed too easy.

But then I met an elderly lady (83 years old) who, although not very smart, has made $117,000 using the same formula.

I then figured my beginning wasn't luck.

For three and one half years, I worked hard to refine and improve on the formula that I had been shown, so that it would be easy to get quicker results.

As I did this, my assets multiplied very rapidly (160 per cent per year) to the point that I didn't have to work any longer.

I guess I am bragging now, but I did start spending a lot of time in our back yard pool, traveling around the country, and doing a lot of loafing.

Then one day a friend asked me how he could do what I had done.

So I began to outline the formula that I had improved to show him really how simple it was, and how he could do the same thing.

By the next time he approached me, I had written almost a complete volume on the easy way for him to copy my results.

I wrote this in simple, straight forward language so anyone could understand it.

This time my friend's questions were very specific. (He had already begun buying properties with the formulas I had been giving him). Now he had a property he wanted to buy, but was out of cash. How could he buy it?

I not only showed him how to buy without cash, but by the time the deal was complete, he had $5,000 cash in his pocket to boot.

I also showed him how to buy a $26,000 property for $75 down.

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Now if you were a personal friend of mine, I know you would believe me and not need any kind of guarantee, but since you don't know me personally, I will guarantee that you will be completely satisfied and that my formula will work for you if you apply it. I will back up that guarantee by not cashing your check for 30 days, and if you for any reason change your mind, let me know and I will send your uncashed check back.

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TRENDS

A NEW NUMBER FOR PHONE COMPETITION

It may just be a matter of time before the last stronghold of telephone monopoly—local exchange service—comes tumbling down. The next-to-last barrier—intrastate long-distance service—took a mighty blow recently when Virginia became the first state to completely deregulate toll calls within the state. As reported earlier in these pages (Trends, Nov. 1983, p. 18), several states have partially deregulated intrastate toll service, but none had gone as far as Virginia, where controls on both entry into the telephone business *and* on rates have been virtually eliminated—even for AT&T.

Until deregulation, AT&T had been the sole licensed provider of intrastate toll service in Virginia, its rates controlled by the state's regulatory commission—but no more. And following the Virginia deregulation, the *Wall Street Journal* reported, both Mississippi and Illinois are now considering deregulating their intrastate toll service.

That even local service may now be teetering on the verge of decontrol is evident from local phone companies' nervousness about the security of their exclusive franchises. Earlier this year, Southwestern Bell Telephone (SBT) formally petitioned regulators in Kansas, Arkansas, and Oklahoma to reaffirm SBT's status as sole provider of local service in its franchise areas. And the company sought similar reassurance from regulators in Missouri and Texas, as well.

Writing in SBT's in-house periodical, *Management Report*, SBT Vice-President John Hayes recently expressed the company's alarm at "developers, universities, government agencies themselves and others" who are installing systems to resell local exchange service or "bypass the local exchange network entirely."

In Oklahoma, SBT's jitters were set off by three instances of private phone systems designed to bypass SBT's monopoly on local service (at a downtown Oklahoma City office building, at a property development in Edmond, and at Oklahoma University in Norman). In Kansas, SBT challenged the legality of the Wichita Airport Authority providing bypass phone service to businesses in the airport complex.

But at the same time that the phone company sought reaffirmation of its monopoly status, SBT seemed to be preparing itself for eventual deregulation of local service. In its petition to Oklahoma regulators for such reaffirmation, SBT added: "If Bell is not the exclusive provider...then Bell should be relieved of both its duty to serve and the attendant economic and regulatory constraints." Furthermore, the company declared, "Like its competitors, Bell should be free to serve only those it desires to serve, whomever it wishes, at whatever rate levels it deems appropriate and for the sole purpose of profit maximization." Revolutionary language indeed.

And, according to telecommunications analyst Milton Mueller, such a revolution is precisely what is needed to infuse cost-reducing and service-improving innovation into local phone service. "Protected monopolies have little incentive to introduce new service and none at all to lower rates significantly," Mueller recently wrote. For precisely that reason, he noted, the Federal Communications Commission deregulated the long-distance and terminal-equipment markets (as well as, most recently, the interstate pay-phone market). The subsequent "competition has led to lower prices and innovative services in these areas; there's no reason to believe that it would not do the same for local exchange service." The real test of Mueller's forecast just may be on the horizon.

A LITTLE FREEDOM HERE, A LITTLE FREEDOM THERE

Even if many candidates for office look unsavory come election day, many voters will at least have the chance to vote on initiatives and referenda that may materially affect their personal and economic freedom. Their concerns range from erotic movies to the price of milk.

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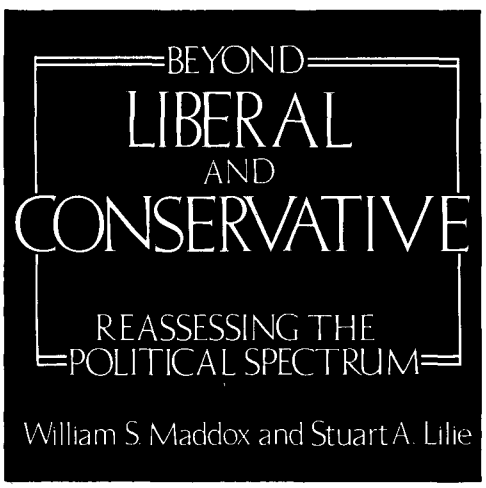

Although other political scientists have noticed the inability of the traditional liberal/conservative dichotomy to adequately explain today's political scene, these two authors provide the first comprehensive analysis of the demographics of ideological diversity in America. Transcending the traditional political spectrum, Maddox and Lilie maintain that there are at least four ideological positions among the American electorate: liberal, conservative, populist, and libertarian. **$18.00, 203 pp., 54 charts**

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David D. Schmidt, editor of the Washington-based *Initiative News Report*, told REASON that at least five states will have ballot measures for reducing taxes. Evidently, one of the most-effective strategies against higher taxes is allowing voters to decide on taxing proposals. A measure in Michigan—once a high temple of New Frontier-Great Society liberalism—would rescind all taxes enacted since January 1982 and require that future increases in state tax rates and any new taxes be approved by a majority of Michigan's voters.

In California, Howard Jarvis has won ballot status for his "Save Proposition 13" measure. He has charged that court decisions have eviscerated much of his original Proposition 13, which limited property taxes; so the current measure would require a two-thirds majority of local voters or state legislators to raise taxes and fees for government services.

Also in the West, Nevadans will decide whether to limit property-tax increases to five percent and require a two-thirds vote by the legislature or a local body even for those increases. The Oregon ballot will include a measure to establish a 1½ percent ceiling on property taxes, thereby reducing property taxes by an average of one-fourth. Arizonans will decide whether to lower their constitution's limit on state spending, now pegged at 6½ percent of their total personal income. And on Guam, voters will decide on a measure to cut government spending five percent annually until a balanced budget is achieved, as well as another initiative that would put an upper limit on the number of days the legislature there may stay in session.

Montanans (but not Californians, courtesy of a court decision denying ballot status to an initiative) will vote on endorsing a constitutional convention to draft an amendment requiring a balanced federal budget. A convention call requires endorsement of 34 states, and according to the National Taxpayers Union, 32 are already on record supporting it.

Meanwhile, there are two measures this November that would loosen states' economic controls. Alaskans will be voting on a proposal to deregulate intrastate transportation and abolish the Alaska Transportation Commission, while Montanans vote on whether to decontrol milk prices in that state.

A handful of individual-liberties issues have also made their way to the ballot box. North Dakotans will decide whether to add to their constitution a statement of

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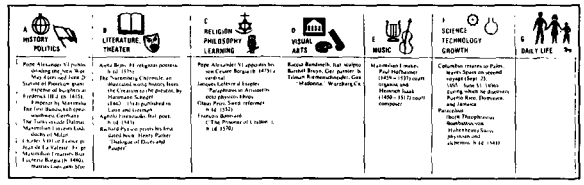

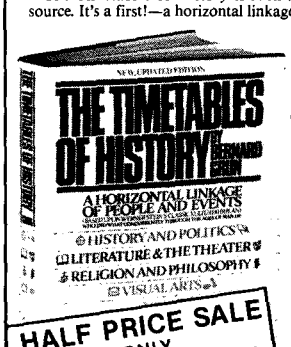

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the right to keep and bear arms. And in Utah, voters will have a chance to defeat a proposal to ban sex-oriented films on cable television, although the effect would be chiefly symbolic at this point. *Initiative News Report*'s David Schmidt points out that Utah's legislature has already passed a similar law, and in any event, the US Supreme Court has recently curtailed local governments' prerogative to enact such restrictions.

In Oregon, where marijuana is reportedly one of the largest cash crops, a team of lawyers in the state solicitor general's office have fought with all their might to keep off the ballot a proposal to decriminalize the personal use of marijuana. They are alleging insufficient petition signatures—but the state refused to recount invalidated signatures even when a group called Oregon Marijuana Initiative investigated and charged that many of the signatures were perfectly valid.

But the pro-initiative group, with the help of the American Civil Liberties Union's Oregon affiliate, just won a battle in the state supreme court ordering the secretary of state to recount the invalidated petition signatures. At this writing, she is reportedly conceding defeat and will place the initiative on the ballot.

Sometimes, struggles for liberty depend on such nuts and bolts.

A SONG OF DEREGULATION

Simon Geller, the owner of a one-person radio station in Gloucester, Massachusetts, may be an unlikely soldier for the First Amendment. But this summer, he won a legal victory that promises to undermine a noxious restriction on freedom of expression—regulation of the content of broadcasts by the Federal Communications Commission (FCC).

The only thing Geller originally wanted was to run his little radio station in peace. It was not to be. His is the only broadcast station in history whose license was revoked by the FCC because of the content of broadcasts. But Geller was not broadcasting hard-core pornography. Nor was he inciting his listeners to violent overthrow of the government. Rather, he had an all-classical music format. Rachmaninoff and Vivaldi may soothe the soul, but, alas, they're not enough to satisfy the FCC's public-interest standard, which requires every station to offer such things as news and public-affairs programming, as well.

Therefore, the tone-deaf commissioners voted to strip Geller of his license—and give it to a corporation owned by former Massachusetts Republican chairman Josiah Spaulding and his business partners (Spaulding subsequently died, but the corporation lives on). Spaulding and his cronies had alleged that since Geller did not broadcast radio's usual mishmash of superficial news and misnamed "public-interest" programming, the poor benighted town of Gloucester was an "information wasteland."

Geller, not a pillar of the Republican establishment, could not afford his own lawyer, so the Washington-based Capital Legal Foundation took his case. In June, they won a big victory. A three-judge federal appeals court threw out the FCC's decision and sent the case back to the commission to reconsider—but this time, on grounds that would not transgress Geller's rights. The court took the opportunity to scold the FCC: "The Commission's approach here raises serious First Amendment concerns," the court said, and "the commission's analysis is simply too cursory and vague to be upheld."

Geller's victory redounds not only to his benefit but also to that of all broadcasters. The court decision "sets forth in great detail" the law that the FCC must now use for broadcasters applying for license renewal, Capital Legal Foundation attorney Jim Moody told REASON.

He also pointed out that *Geller* v. *FCC* could even be used by the commission as a vehicle for doing away with *all* content regulation. That's because a few days after the *Geller* decision, the Supreme Court said in a footnote in another case: "We are not prepared, however, to reconsider our longstanding approval [of FCC regulation of content] *without some signal from Congress or the FCC that technological developments have advanced so far that some revision of the system of broadcast regulation may be required*" (emphasis added). Moody construes this as the Supreme Court saying to the FCC and Congress, in effect, "Send us the signal on deregulation of content—but it has to start with you."

Will a chastened FCC mend its ways and use the Geller case to send that signal? It's too early to tell, and it will be at least a few months before the commis-

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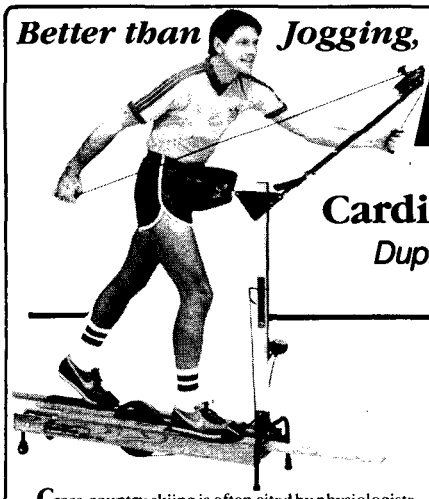

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sion acts. Its record in the Geller case so far has been shabby, but it's not too late for it to sing a different tune.

THIRD WORLD: BANKING ON THE MARKET?

Which is a greater burden on a developing country's economy: a high population-growth rate or price distortions from trade restrictions? If you were on the staff of the International Monetary Fund (IMF), you'd probably subscribe to conventional development economics and instantly pipe up, "Why, population growth, of course." But a staff member at the World Bank these days just might answer more accurately; for as economist Paul Craig Roberts wrote in a recent *Business Week* column, "Good sense has been creeping into the World Bank for the past four years, and it has just about taken over."

As an example of that creeping good sense, Roberts quoted the bank's 1984 *World Development Report*: "The rising trends in unemployment and inflation were the manifestation of increasingly inflexible arrangements [read: government policies] for setting wages and prices and for managing public finances." And in the bank's report of the year before, an analysis of data from 31 developing countries showed that price distortions, attributable to controls, "account for the difference between countries that average 3% annual real economic growth and those that average 7%." The upshot, Roberts noted, is that "market pricing is a far more important factor in per capita income growth than population-control programs can be."

The editors of the *Wall Street Journal* also rejoiced at the World Bank's emerging strain of free-market thinking as evidenced in its 1984 report, citing in particular the report's identification of the economically depressing effects of high taxation—"one of the main girders of supply-side economic theory," the *Journal* noted. And supply-side advice is what the World Bank has to offer to developed, as well as developing, nations. As the *National Journal* recently noted, the World Bank's 1984 report forecasts sustained economic growth worldwide *if* developed nations cut their budgets, decrease subsidies, and reduce trade restrictions (and if developing countries follow similar advice).

In contrast to the World Bank's newfound wisdom, the IMF remains out in the economic cold. *Wall Street Journal* writer Gregory Fossedal recently reported that "the fund considers government tax levels per se to have no effect on growth." To the IMF, "taxes are just one, economically neutral means" of reducing trade and budget deficits. Hence, Fossedal noted, an IMF rescue package for Jamaica calls for raising taxes on imports and basic consumption items—though "such items are already taxed at more than 50%."

Meanwhile, Turkey may provide the real-world evidence of how market-oriented policies can boost a developing nation's economy. There, Turgut Ozal, approaching the end of his first year as premier, has initiated a number of measures that fly in the face of typical IMF austerity programs. He has removed import restrictions for many items, eased investment rules for foreigners, held down expansion of the money supply, and slashed taxes on personal income, corporate earnings, and interest. At least one early result bodes well: savings are up sharply, the *Wall Street Journal*

BUREAUCRACY vs. ENVIRONMENT

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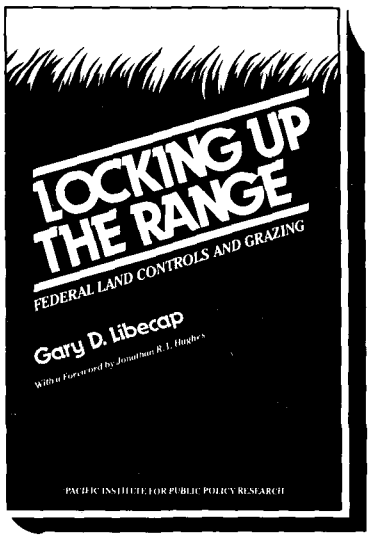

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Federal Land Controls and Grazing
By GARY D. LIBECAP
Foreword by JONATHAN R.T. HUGHES

Locking Up the Range details the efforts of the Bureau of Land Management to expand its regulatory authority and attenuate the privileges held by ranchers. Libecap demonstrates that the self-interest goals of the Interior Department repeatedly blocked the assignment of private property rights to the range despite the absence of any public goods qualities. Since the land has been retained by the government, use privileges are bureaucratically assigned and are inherently uncertain due to the narrow, changing goals of the bureaucracy. The conflict between ranchers, environmentalists, and the Interior Department in the 1980s reflects these continuing past conditions and can only be permanently resolved through the recognition of clear property titles to those who use the land.

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reported, "helping to attract several American and Arab banks." And Ozal predicts a healthy GNP growth rate of 5.7 percent for 1984 and, by the second half of 1985, a reduction in inflation from the present 45 percent annually to 25 percent.

Turkey is perhaps not entirely alone in its defiance of development-economics orthodoxy, but it hasn't many allies, either. And as Paul Craig Roberts warned, "Antimarket ideology remains a powerful force and, unless combated successfully, may yet impoverish the world." Thankfully, it seems the influential World Bank is now moving toward the market side in that battle.

UNEMPLOYMENT AND THE DOLE

What happens when unemployment benefits are cut? For one thing, as economic theory would predict, people tend to stay unemployed for shorter periods of time. University of Michigan economist Gary Solon, in a paper prepared for the National Bureau of Economic Research, documented this effect in analyzing data on Georgia's unemployment-benefit recipients for 1978 and 1979 (1979 was the first year that unemployment benefits were subject to federal income tax, thus reducing after-tax benefits for some recipients). According to a *Business Week* report, Solon found that the period of unemployment among those affected by the tax change dropped by about one week in 1979.

European policymakers might do well to heed Solon's findings: the *Economist* reports that Europe's official unemployment tally of 19 million is certain to rise next year, unwelcome news for the economically beleaguered Europeans. In a recent editorial, the British weekly criticized many proposed policies—popularly touted as job-creating measures—that, the magazine worried, "will actually make things worse." Among those policies are mandating a shorter work week (with no pay cuts) and forced early retirement. In that same issue, the *Economist* published an article, based on the work of Dutch economist Max Geldens, analyzing both American and European employment and discussing a number of "market-sensitive measures that would promote a higher demand for labour."

Corroborating Solon's findings about unemployment in the United States, the *Economist* article noted that "there is a disturbing correlation between unemployment benefits and the length of time the unemployed remain inactive." Comparisons of these factors among a number of North American and European nations bear this out: in Holland and France, for example, the unemployed receive comparatively higher benefits than their counterparts in the United States and Sweden, and the length of unemployment in the former countries is considerably greater than that in the latter nations.

The correlation between unemployment-benefit levels—which are now determined primarily by government decree rather than by market forces—and how long the unemployed remain without work is convincingly consistent. Admittedly, unemployment is a complex phenomenon, probably with many causes, but unsound government policy on unemployment benefits certainly appears to be one of them.

BUSTING A TRUSTED BELIEF

According to a widely held belief, the more "concentrated" an industry, with the market dominated by a few firms, the lower must be the industry's productivity and the higher the prices for its products. Those who promote this theory assume

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that such concentration is the product of collusion—sometimes tacit, sometimes explicit—among a few firms that seek to limit supply and thereby command monopoly-high prices. Trust-busting legislation and legal proceedings have been largely based on this theory.

Over the years, however, various economists have produced studies refuting the collusion theory of concentration. Now, in a recent study published by the American Enterprise Institute, economist Steven Lustgarten of Baruch College in New York offers powerful evidence for an alternative explanation of how concentration arises. According to the "efficiency theory" suggested by Lustgarten, "concentration arises out of a competitive process in which more-efficient firms grow large and less-efficient firms withdraw or fail." And this superior efficiency of large firms results in lower, not higher, product prices.

In his study, Lustgarten examined Census Bureau manufacturing-industry data for the periods 1947-72 and 1954-72. He found that throughout both periods, productivity gains were higher and price increases lower for industries in which concentration increased, compared to all other industries generally. Moreover, this differential was even greater between industries showing significantly increased concentration over time (more than 12 percent) and those in which concentration decreased.

Deeply entrenched beliefs are difficult to eradicate. But the next time regulators, legislators, or self-appointed do-gooders feel the trust-busting impulse, they might better heed Lustgarten's cautionary conclusion: "Government policies designed to restructure concentrated industries would lead to less-efficient production and higher prices for consumers."

EXPOSING TRUCKERS' ROAD TO RUIN

When Washington divvies up pork-barrel subsidies, one of the biggest goes to truckers. It doesn't take the form of an outright welfare check. Instead, operators of heavy trucks that use the federal highway system are charged (via fuel taxes) for repairing only a fraction of the damage that they cause to the government-owned roads. Automobile drivers, meanwhile, have to pick up far more than their share of the expense. The

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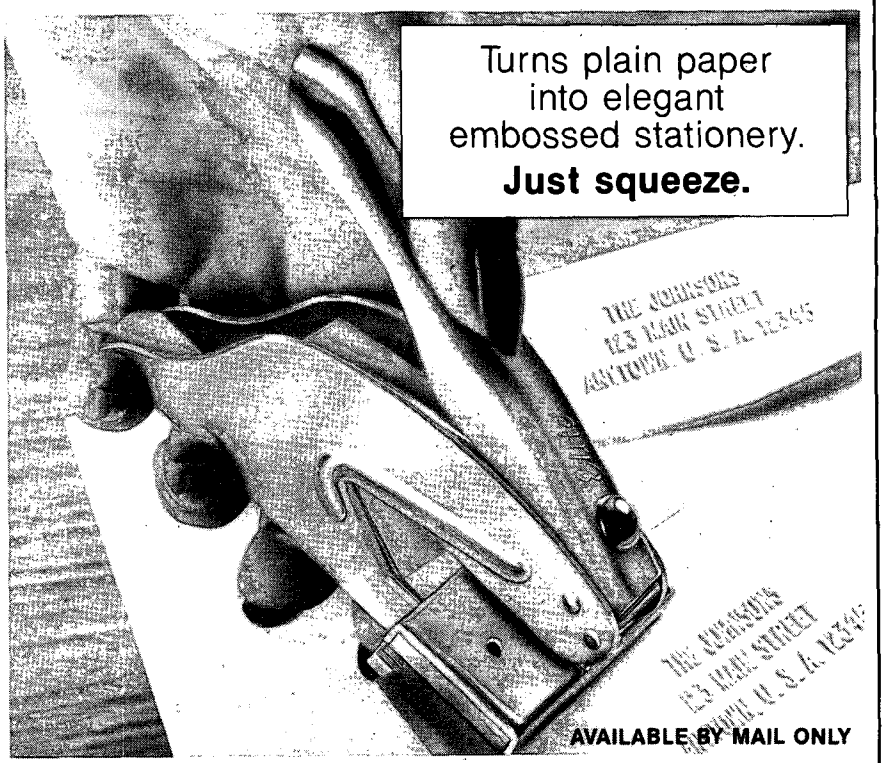

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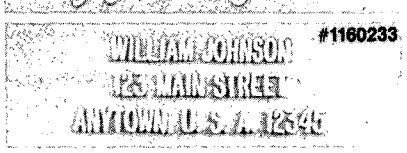

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truckers' lobbies in Washington regularly squawk that their clients don't cause any more significant damage to highway pavements than do automobiles, but a new study seriously undermines that claim.

What is at issue is pavement deterioration. The trucking industry claims that parkways (roadways limited to cars) deteriorate as fast as highways with truck traffic. But the Austin-based ARE Engineering Consultants recently issued a report that tells a different story.

ARE found that two of the parkways often cited by the truckers and their apologists—the Baltimore-Washington in Maryland and the Merritt in Connecticut—are indeed in bad shape, but they deteriorated for reasons very different from those marshaled by the truckers. The Maryland parkway has deteriorated because of inferior design and construction materials, and the Connecticut parkway is crumbling because of the use of

GLOBAL TRENDS

BRITISH FREEDOM TAKES WING

GREAT BRITAIN—Britain is at a transition stage. As optimism rises about the end of the recession, pressures are bubbling up for changes in the welfare state, in the amount of state ownership, and in the whole attitude toward how individuals should be looking after themselves instead of relying on the state. Moreover, government spending this year fell as a proportion of the Gross Domestic Product for the first time in a long time. That must mean something. Britain is not going to pop out suddenly into Valhalla, and there's an enormously long way to go, not least because the educational establishment is so backward. But at least the right questions are being asked.

It is interesting to see how the politicians deal with the so-called privatization of state industries. The Thatcher government has been passing out bits of British This and That for a while, and there is more to come. But the process is far from perfect. The existing statutory institutions sometimes manage to survive the privatization process and effectively bottle it into a quasi-governmental industry.

At the same time, there is a tendency for the market, once released, to show its strengths where enough freedom has been given. Opticians, the National Freight Corporation, and telephone manufacturers come to mind as examples of where we now have choices and not a tax load to pay—where privatization has in fact been forgotten as an issue and the freed industries are just seen as normal services like any other.

There are signs that even the socialist Labour Party may be tacitly accommodating itself to the inevitable. No longer are they saying that they would automatically renationalize all the industries that have been privatized under Thatcher. Instead, according to the London *Times*, they're admitting that "a blanket policy of renationalization will be neither feasible nor desirable when the party next comes to power"—whenever that might be. Even the hallowed, decades-old Clause IV of the party's constitution, which calls for "common ownership" of the means of production, distribution, and exchange, is being judiciously reinterpreted. Now, the party says that Clause IV can mean worker and consumer cooperatives and local enterprise boards invested in by local government.

Meanwhile, the edifice of government-regulated air fares is crumbling. Deals have now been made between Amsterdam and London on a bilateral basis that have brought fares down from just under 100 pounds (about $130) to 46 pounds (about $60). There's a gain here for both countries. Schipol International Airport in Amsterdam is trying to make itself the great rival to London's Heathrow Airport and so had a great interest in a cheap connecting flight to London for intercontinental connections.

But the Amsterdam-London arrangement is only one hole in the dike. There have been discussions about other such agreements, and apparently even the Eurocrats in Brussels are beginning to see the light, not least because the parliamentarians who fly into Strasbourg for Europe's lame-duck parliament always complain about the cost of flights. It only needs a congressman to say boo, and the goose will run.

The massive cuts in airline fares represent but one of the little cracks appearing all the time throughout Europe. Recently, German-French border officials stopped checking papers and now pass people through with a nod, conducting spot checks for illegal smuggling only. Once this nonbarrier mentality spreads, we may be able to get air flights from country A through B and C and back to country A—all on a country A carrier. Slow work, but it will come.

—EBEN WILSON

PRIVATE DOINGS IN GERMANY

WEST GERMANY—The idea of privatizing government-owned services and property is not new here. In the 1950s, the Christian Democratic government of Konrad Adenauer experimented with privatization. Lately, though, the idea has gained considerable momentum, even outdoing the British in at least one respect.

Specifically, Britain so far has nothing like Germany's "privatization exchange," as reported recently in *Urban Innovation Abroad*, the newsletter of the Council for International Urban Liaison. The German Chamber of Industry and Commerce started the exchange in order to match government agencies with private-sector suppliers of services, at no charge to either. Within a month after it started operation, the exchange had registered 130 private firms willing to provide computer centers, bus systems, tourist offices, janitorial services, and more.

(Continued on p. 20)

studded snow-tires over a long period of time.

For a better indication of trucks' effect on highways, the authors of the study looked—for contrast—at car-only parkways that were well-designed and -constructed. All of the roads they examined were between 31 and 57 years old, but what the engineers found was impressive. "Although various segments of the parkways at both locations showed some distress," they noted, "there were no signs of fatigue cracking, faulting, edge drop-offs, subbase pumping or other damage normally found on truck trafficked roads." They also discovered that maintenance efforts were "relatively low."

The ARE report was commissioned by the Association of American Railroads, a major competitor of the trucking industry. But it should not be dismissed out-of-hand. Abundant studies from disinterested sources also indicate that heavy trucks do cause considerable damage to highways. A study conducted by the state of Mississippi, for example, compared roadways at the approach to, adjacent to, and leaving truck weigh stations. On the pavement adjacent to the stations where no large trucks passed (they were driving into the weigh stations, instead), the pavement was far smoother than where the trucks entered and left.

Despite all this, truckers tenaciously fight every effort to make them pay anything close to a proportionate share of highways' maintenance costs. In 1982 they supported a compromise bill in Congress that permitted 80,000-pound trucks on all interstate highways (thus overriding three states' prohibitions on trucks over 73,000 pounds). In exchange, truckers agreed that the annual federal "registration fee" on trucks (intended to charge users for some of the cost of roads) was to be increased beginning on July 1 of this year. But in June, only weeks before that was to happen, the truckers' friends in Congress rammed through a bill that slashes the registration fee from a maximum of $1,600 for the largest trucks to $500. Instead, the federal tax on diesel fuel was increased by 6 cents per gallon.

Truckers and their friends in the administration piously claim that the June change is "revenue-neutral"—the same amount of tax money will be coming in. But as Harriet Parcells of the Environmental Policy Institute explained to REASON, the diesel tax actually subsidizes heavy trucks at the expense of lighter trucks, since the damage that heavy trucks inflict on roads is far out of proportion to their fuel consumption. Moreover, all trucks are still subsidized at the expense of other drivers, since all federal taxes paid by truckers are far from compensatory for damages caused by their rigs.

Fortunately, some states may have hit on a partial solution. They are charging trucks for road use according to both their weight (and the resulting damage to roads) and the distance they travel on those roads. Truckers complain that such a weight-distance formula is unworkable. But according to Parcells, Oregon has had such a tax since 1947, and "it's administratively feasible and not expensive to administer." Indeed, its administrative costs are only 6 percent of the revenues collected. Eight other states have subsequently followed suit.

The trucking industry may defend its

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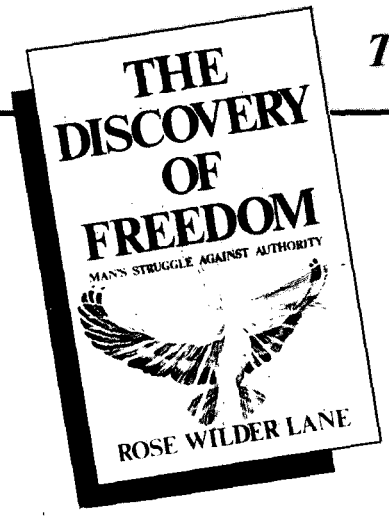

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special treatment at the federal level with an array of distortions and half-truths. But from time to time, reliable studies manage to expose the holes in such a case, and innovative state governments are showing that more price-like alternatives can work.

MARKET METHODS NOT PIE IN THE SKY

The marketplace has always been a highly efficient way to allocate scarce resources anywhere in the world, ranging from Matisse paintings in Paris to artichokes in New Hampshire. It is no wonder that a market economy should be useful in the heavens as well—and the realization has come recently from a surprising quarter.

In a recent letter to *Science* magazine, two scientists with Resources for the Future—Molly Macauley and Paul Portney—suggested a shift toward a market-oriented allocation of communications satellites. Specifically, in the geostationary arc in space where such satellites operate, there is a prime portion with a view of the entire United States. This area is as valuable to satellites as Beverly Hills and midtown Manhattan are to people. Yet as Macauley and Portney pointed out, the Federal Communications Commission (FCC) currently has the "mind-boggling responsibility of ranking applicants for arc space on the basis of increasingly diverse—and nebulous—characteristics."

But Macauley and Portney believe there is a solution—auctioning the right to locate a satellite in the arc's prime portion. Among the advantages of this or a similar market-based scheme: the FCC bureaucracy would no longer be devising criteria for allocating arc space—the criterion would instead be how much value the private firms themselves place on the space. And, noted the researchers, if an auction scheme were adopted internationally, it could be a boon to a less-developed country that cannot now afford the full cost of communications satellites of its own. The country could buy a slot and lease the space to others until it had the wherewithal to finance a satellite.

Macauley told REASON that in their letter to *Science*, she and Portney were expressing their opinions and not speaking on behalf of Resources for the Future, a Washington-based environmental group. Still, it's significant that market allocation of arc space should be endorsed by scientists with Macauley and Portney's institutional affiliation. Macauley noted that she and Portney will be developing the idea further in an article to be published in an upcoming issue of *Regulation*, a magazine of the American Enterprise Institute.

Frequently, when limited resources are allocated by some artificial formula, scarcity and irrational use of the resource results. In light of the current system, Macauley and Portney themselves ask, "Will there be room in the arc?" Their answer: "Certainly, if this resource is treated as the valuable commodity it is."

GLOBAL TRENDS

(Continued from p. 18)

But much is already under way. Germany's Junior Chamber of Commerce published a report late last year documenting 600 successful instances of privatization. For example, the city of Essen transferred to a private operator a 75-year-old school of municipal administration and business, thus relieving taxpayers of the burden of subsidizing the school by 440,000 marks annually. (In private hands, it is now operating without a loss.)

Where the costs of private and government-run institutions can be compared, private institutions seem to be doing quite well. For example, a private hospital in Dortmund with two beds per room offers care considerably cheaper than the government-run clinic with three beds per room. And when the town of Warstein privatized one of the municipal swimming pools in 1981, saving taxpayers some 50,000 marks annually, it required that the private operator not raise the admission price above that of the pools still owned by the city. Not only did the new owners comply with that rule, but they improved quality—their pool is now open all the time, unlike the city's pools, and it offers more services.

Because of privatization, enterprises that were losing money hand over fist are on the road to solvency. A municipal slaughterhouse(!) in Cologne was losing 810,000 marks annually before it was bought by a consortium of 105 private firms. Now, its operation has been improved dramatically, and the enterprise is actually turning a profit.

In the wake of these experiences, the Konrad Adenauer Foundation's Institute for Local Politics has published a report by Eberhard Hamer calling for extensive privatization at both local and national levels of government. Hamer wrote favorably of privatizing the German Federal Railroads, the postal service, government-owned forests and arable land, public housing, airports, hospitals, and many other enterprises currently under state control. He also cited his 1981 empirical study showing how much more expensive German state enterprises are than their private counterparts—motor-vehicle repair, 100 percent; printing services, 50 percent; laundry services, 90 percent; and office cleaning, 150 percent.

Hamer noted that one of the biggest obstacles to efficient privatization is a national law providing extensive job protection for permanent civil servants. In most cases, he pointed out, "they could not be dismissed in the case of privatization." But he also notes that while many civil servants have opposed privatization, some—including air traffic controllers—have supported the idea "because in the private economy they would receive a higher net income than in public service."

MILESTONES

• *Delaware axes taxes.* In July, Delaware enacted an across-the-board 10 percent cut in the state personal income tax, effective January 1, 1985. It was the state's second such tax cut in the last four years. Gov. Pierre du Pont said that the cut was made possible by the state's "constitutional restraints on government spending."

• *Bible Belt victory.* A seven-year battle between Nebraska authorities and private church schools was resolved in August when the state's board of education conceded the right of church schools to hire teachers who don't have state certification.

—ROBERT W. POOLE, JR.,
PAUL GORDON,
AND ERIC MARTI

Amaury Betancourt

José Palmero

Felipe Valls

Ramón Oyarzun

Armando Codina

MIAMI'S *Cuban* MIRACLE

In an excerpt from his new book, the author of *Wealth and Poverty* tells how Cuban immigrants have sparked an entrepreneurial boom in Miami.

By George Gilder

To break away from the nets and maps of the past usually requires a powerful psychic push or surrounding convulsion. Business breakthroughs spring more often from mental breakdowns than from lucky breaks, lucrative deals, or academic prizes. Entrepreneurs are more likely to find inspiration in a pink slip than in a promotion. The entrepreneurial crisis may take many forms. But A. David Silver, perhaps the leading student of the psychology of entrepreneurs, discovered in an extensive survey of major American successes that most were driven by conscious feelings of deprivation and guilt stemming from broken families and connections.

In the modern age, however, the paramount source of entrepreneurial disruption and guilt is the turbulent politics of a tyrannous and war-torn world. In nearly every nation, many of the most notable entrepreneurs are immigrants. Immigration usually entails violation of ancestral ties and parental obligations. Dealing in their youths with convulsive change, thrown back on their own devices to create a productive existence, ripped untimely from the womb of a settled life, immigrants everywhere suffer the guilts of disconnection from their homes and families and ally easily with the forces of the future against the claims of the past. Shaped by a fractured or betrayed conservativism, however, the immigrant's most revolutionary creations usually reverberate with remembered values. In forging a new world, he continually restores the old.

In the history of the United States, each new flood of immigrants has enacted this essential drama of abandonment and rebuilding. But in recent years, no group has played it out with the energy and resourcefulness of the Cubans who fled Castro's Cuba in rage and fear and settled first in Miami, Florida.

The city did not seem ready for them. For the economy of central Miami, 1961 was a grim year. In the inner-city area around the Tamiami Trail, more than 1,000 homes, with Federal Housing Administration mortgages, had been vacated, and many were vandalized for their copper pipe and electrical fixtures. Local shops gasped for customers and went broke; 40-year-old Burdine's, the chief downtown department store, was languishing helplessly as its clientele moved toward the suburbs. Even Miami Beach, the supreme American resort

Photographs by Pelham & Co.

across the Bay of Biscayne, was slipping perceptibly past its prime, as wealthy northern tourists increasingly passed it by for mellower island shores to the south.

To many observers, the arrival of the Cubans seemed a deadly blow to the city's hope for recovery. Some 200,000 had already fled Castro's burgeoning dictatorship, and more arrived daily. Castro had proclaimed a new law of *potestas patria* under which he was abolishing Catholic schools, establishing centers for communist indoctrination, incarcerating dissidents, and commandeering lawyers and other white-collar people for labor in the sugar fields. Refugees flocked the Miami airport, in painful confusion; then clustered five or more to a room in Miami bungalows and apartments, looking for jobs, nonexistent in the struggling Dade County economy, and confidently awaiting deliverance—and vicarious vengeance—through a brutal charge of US Marines onto the beaches of Cuba, ordered by America's macho new president, John F. Kennedy.

Some 13,000 of the immigrants came as unaccompanied children, landing in Miami without kin, without English, and many with only a vague connection in the United States. They had been packed off by desperate parents and left to be processed in refugee camps and then passed on to orphanages and foster homes. Many of the immigrants of all ages were channeled first to other communities, but most of them gravitated back to southern Florida, the area closest to their prior home and most acculturated with Cubans.

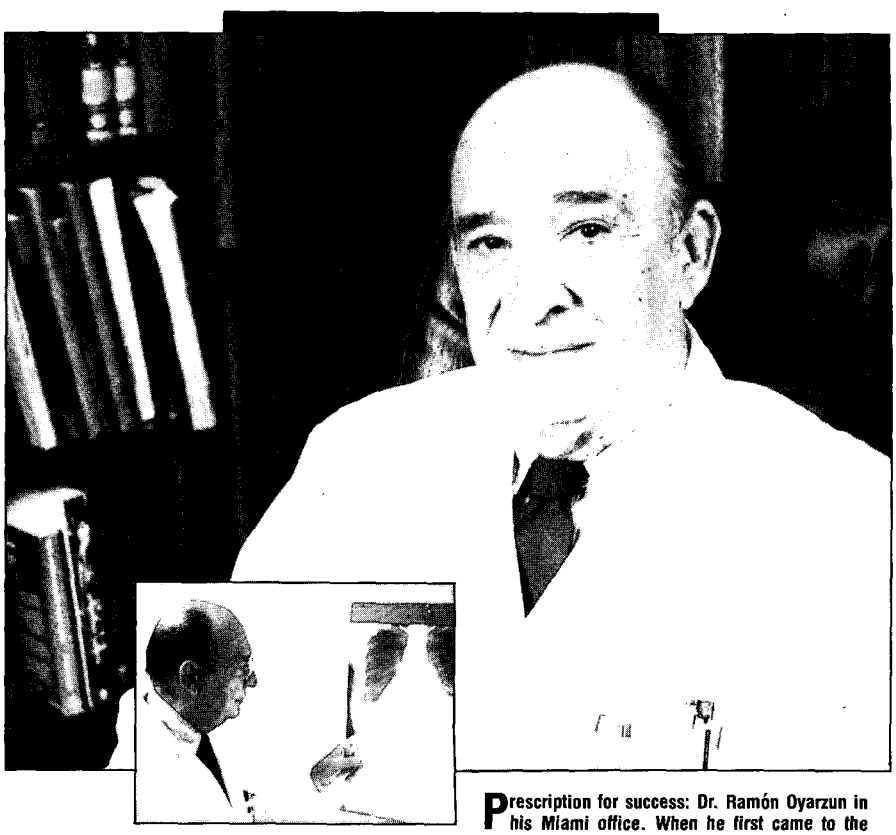
All statistical projections were dismal. Experts foresaw a prolonged siege of medical crises, economic stresses, and ethnic frictions; a teeming burden of "social disorders," needs for housing, welfare, and simple hygiene—an impossible load for the already afflicted social services of the city. Here in one economically stagnant urban area, over a period of just two years, thronged some 200,000 penurious immigrants—more than the total of black unemployed youths in all of America's urban areas at the time, concentrated in the hard core of one central city. It was an influx about *one-fifth* the size of the entire Dade County population in 1960, an inundation more rapid and overwhelming than any previous migration to one American city.

Few of the arrivals spoke English, and virtually none had arranged for jobs or housing. Many had been reasonably well educated and well employed in Cuba, but their experience and credentials were often irrelevant in the United States. Doctors, architects, and lawyers escaped the sugar fields only to work as busboys, bootblacks, and parking-lot attendants. Nearly 60 percent of the exiles had been common laborers even in Cuba, and all had lost most of what they had accumulated at home. From the press coverage and political comment of the day, it is difficult to find any observers who saw this human flood as anything but a tribulation for southern Florida or a problem to be solved by saviors at the Department of Health, Education and Welfare and the Immigration and Naturalization Service—or the US Marines.

The Cubans' saviors, however, were already at hand: they would be saved by themselves—not chiefly by a trickle-down of grants from the government, but by the upsurge of their own productive efforts. They would be saved by people like José Palmero, penniless, having invested his last dollars in some second-hand records to peddle door to door; by Armando Codina, then a frightened, gangly youth, with just two words of English, *hamburger* and *Coke*, assigned to a refugee camp and awaiting passage to an orphanage in New Jersey; by Felipe Valls, washing dishes in a restaurant, living in a house with his pregnant wife, two children, and 12 other Cubans; by Amaury Betancourt—with a wife, six children, a mother-in-law, money running low—an unemployed lending officer looking for months for some clerical billet in a bank; by Ramón Oyarzun, once a doctor in Cuba, now hunched over a desk, processing paper in Mercy Hospital, living in a three-bedroom bungalow in Miami Beach with 15 other Cubans; by thousands of other men and women.

They were then unemployed, unpromising, and unsettled, living in accommodations comprehensively in violation of code, but they were already at work, seething with the spirit of enterprise, figuring out how to transfigure downtown Miami's Southwest Eighth Street into Calle Ocho, the main drag of a new Little Havana. It would soon become more effervescently thriving than its crushed prototype, soon would percolate with the forbidden commerce of the dying island to the south.

In a once ghostly three and a half square miles, Little Havana now boasts what the Latin Chamber of Commerce catalogues as 97 restaurants and cafeterias, 81 groceries and supermarkets, 49 gas stations, 48 clothing stores, 46 barber and beauty shops, 46 jewelry stores, 34 *farmacias*, 33 furniture outlets, 21 bakeries, 20 cigar factories, 20 law and real estate firms, 17 *florerias*, 17 photo studios, 13 optical shops, 13 hardware stores, 10 private clinics and hospitals, 10 bookstores, 10 tailors, 8 travel agencies, 7 funeral parlors, and 5 banks.

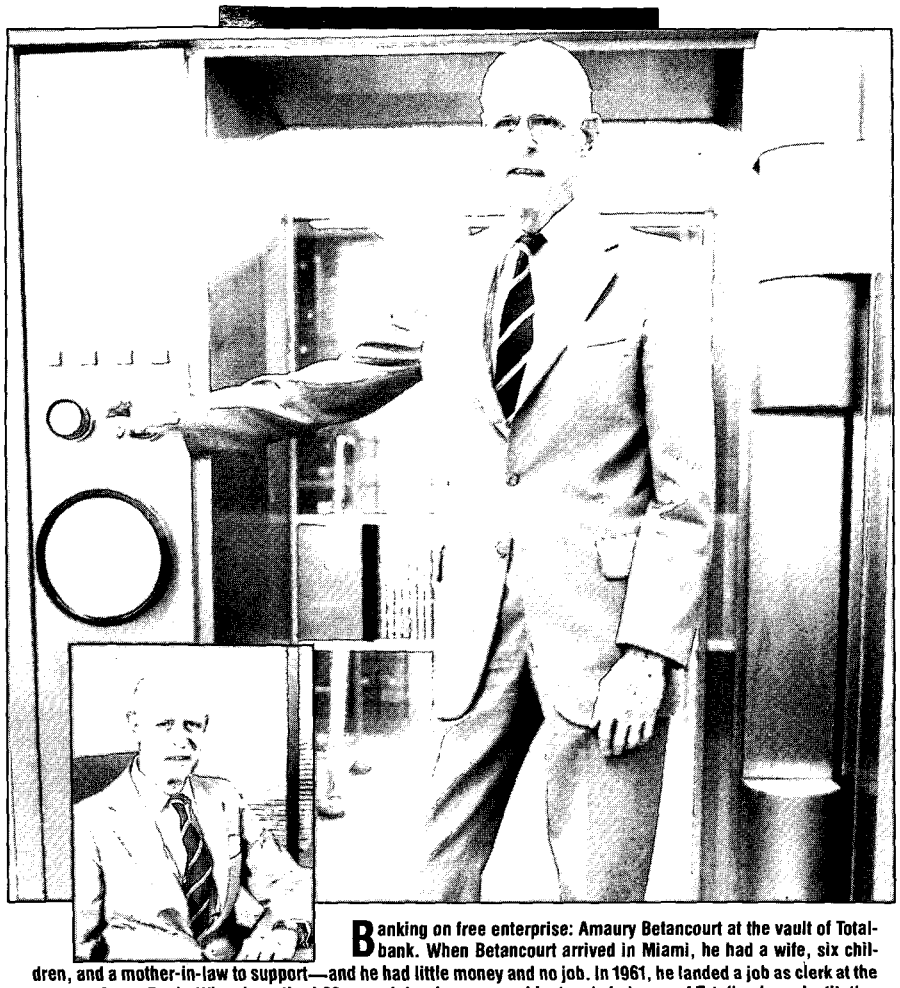


Prescription for success: Dr. Ramón Oyarzun in his Miami office. When he first came to the United States, he was living in a three-bedroom bungalow with 15 other Cubans and working as a paper processor at Mercy Hospital in Miami. Now he is one of the most prominent physicians in Miami, the head of the League Against Cancer, and the owner of the medical building where he first went into practice.

The Chamber of Commerce counters, however, apparently overlooked several theaters, nightclubs, import-export companies, auto-repair shops, discotheques, driving schools, doctors' offices, and vendors of *articulos religiosos*—not to mention the numerous *botanicos* and 10 more Cuban banks, in the continuing eruptions of Cuban business to Miami's north and south that by 1980 comprised some 10,000 Cuban-owned companies in Dade County.

The immigrants who conjured up this commercial miracle proved to be anything but a problem for Miami. They in fact bore the antidote to Miami's decay: a comprehensive total solution, what Brookings Institution sociologist Robert Bach called "one of the fastest and most far reaching transformations of any urban area in U.S. history." Not only did they solve the problems that their arrival precipitated; they created jobs for hundreds of thousands of other Americans. Not only did they revive Miami's stagnant inner city; they transformed the entire Miami economy, making it into a new gateway to Latin American commerce, a new financial access between Europe, the United States, and the 30 nations and 342 million people to the south.

What was widely depicted as a burden for the existing capacity of the city's crawling economy was in fact a winged force of international growth bursting the confines of a parochial downtown—giving forth supplies that would at once create, fulfill, and overflow their own demands. Among the dismal scientists predicting Miami's demise once again had arisen the perpetual error of demand economics: the vision of human beings essentially as mouths, but not minds—as "consumers" of goods and services, but not producers of them; as users of jobs, but not as creators of new work.



Banking on free enterprise: Amaury Betancourt at the vault of Totalbank. When Betancourt arrived in Miami, he had a wife, six children, and a mother-in-law to support—and he had little money and no job. In 1961, he landed a job as clerk at the Coconut Grove Bank. When he retired 22 years later, he was president and chairman of Totalbank, an institution with assets of $120 million and branches throughout Miami.

José Palmero began creating new work within weeks after he began peddling secondhand records on Eighth Street. For 30 days or so he saved up his profits from the album sales. Eventually he accumulated enough to rent and refurbish a small shop near the popular Tower Cinema for $100 per month. He named his store Ultra, after the leading department store in downtown Havana, and began selling favorite Latin imports to the movie crowds and others on the street. Also in mid-1961, Amaury Betancourt, the elegant unemployed banker with six children, had found a job as a clerk at the Coconut Grove Bank. Although it was one of the three oldest banks in Miami, he noticed it lacked an international department. Within six months he became assistant vice-president, was allowed to stop punching a time clock, and was assigned the challenge of forming an international division, in part to deal with a rising commerce with Latin America.

Meanwhile, Felipe Valls's wife gave birth to a baby girl, adding to the burdens on Miami social services and lowering her family still deeper into the statistics of per capita poverty. Felipe quickly tired of his dishwasher work and found a job as a salesman in a restaurant-supply company that was encountering a rise in the demand for restaurant goods in Little Havana. At the same time, still living in crowded quarters in Miami Beach, Dr. Oyarzun began studying to pass the Foreign Medical Board examinations, which would allow him to practice, in a limited way, in the United States. By early 1963, Armando Codina—"a slim 5 ft. 8 inch 13 year old," according to the records, "who likes to read adventure fiction and wants to be a mechanical engineer"—moved out of the orphanage and into a foster home with the O'Brien family, in Pompton Lakes, New Jersey, where he entered high school.

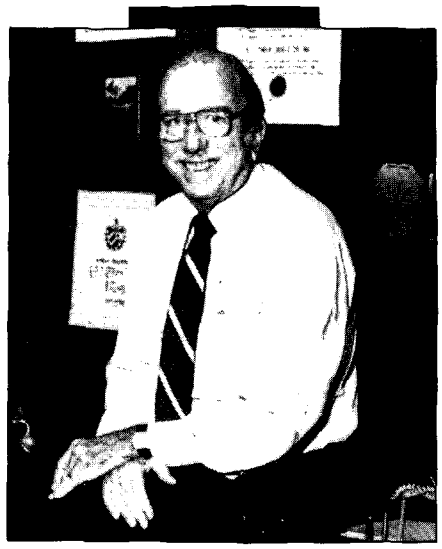
This group of immigrants was making clear progress. But with their large families and mostly nonworking wives, their halting English and questionable skills, their congested housing and low-paying jobs—and with what the press called "shockingly low benefits" and small enlistments in Florida's welfare system—they constituted a further increment to the poverty problem that was then preoccupying the bureaucracies of Washington, a clear part of the statistical ghetto of "invisible poor" to be uncovered indignantly later that year, 1963, in Michael Harrington's *The Other America*. Enterprise begins with savings, with forgone consumption, which appears, from a sufficient distance and height of abstraction, identical to poverty. But welfare families with adequate income and housing can seem fine in the data though they remain, by any relevant measure of prospects, mired in real and intractable privation.

By 1964, however, some three years after their arrival, four of the immigrant families of our story were beginning to make significant contributions to the Miami economy. Ultra Records was thriving on Calle Ocho, and Palmero was

planning to open another store in a new shopping center. Valls was growing restive as a salesman of restaurant equipment and was trying to persuade his boss to begin importing espresso machines from Spain, in order to accommodate the coffee thirst of the rapidly growing Cuban community. His boss, however, saw these devices as a troublesome specialty item, and he refused to add them to his inventory. Valls thereupon borrowed some money from a friend ("at high interest," he says) and began importing espresso machines himself. He knew his market. Paying $300 apiece and selling them for $1,200, he soon was able to pay back his loan, hire a mechanic to install and service the equipment, and rent a shop for his new International Equipment Corporation. With another loan, a second mortgage, and a low down payment, he also managed to move his family into the $17,500 house in southwestern Miami that they occupied until 1982. At the same time, Dr. Oyarzun had managed to improve his English enough to pass his medical boards.

In 1965, Armando Codina returned to Florida from his foster home in New Jersey to meet his mother, who had managed finally to escape Cuba and was living in Jacksonville. Codina attended his final years of high school there, learned several thousand more words of English, and won a scholarship in mathematics to Jacksonville University. But his mother had never held a job in Cuba, and with his father absent and divorced, Armando saw that "either she would have to go to work or I would." He rejected his scholarship and never attended college. Instead, at age 17, he took a job as a messenger at Jacksonville's American National Bank, while moonlighting as a bag boy at the neighborhood Winn Dixie supermarket. It looked very much like a setback for the young Cuban. But at American National Bank, Codina fell in love—with computers.

Back in Miami, Palmero had yet to learn English or even locate a university, but his record business was expanding rapidly, and he opened Ultra stores in two new shopping malls and began to import records from Latin America and the Caribbean. Amaury Betancourt had risen to the position of vice-president in charge of the rapidly growing international division of Coconut Grove Bank, and Felipe Valls, after several years of supplying restaurants, had become a contractor and consultant, designing and building them. Following a long period of work in hospitals, Dr. Oyarzun had established himself in practice and was considering the possibility of buying out his American colleague.



Record growth: José Palmero of Ultra Records, Inc. He once peddled secondhand records on the street. Now, his company distributes Latin American records all across the United States.

By 1970, the Cubans were securely established in the city. The census counted some 291,000 of them, or 23 percent of the population in Dade County. During the next decade—those stagnant years of the 1970s so pregnant with change and growth—the number would more than double, rising to 41 percent of the citizenry. Through most of this period, however, the Florida economy grew far faster than the rest of the country's, with lower unemployment and smaller welfare burdens. Every new influx of Cubans brought new fears and alarms, new demands for federal aid and management, while the Miami economy continued to expand far faster than those of the regions from which the aid was solicited. Despite the unimpeachable lessons of the long history of American immigration, the American people greeted each new siege as an economic problem rather than the economic boon it demonstrably became.

During the 1970s, each of the five immigrants in this story made important contributions to the triumph of the Cubans in Miami, one became a significant national business figure, and their children were moving rapidly into productive jobs in Dade County and across the country. Amaury Betancourt became president and chairman of one of Miami's 15 Cuban-owned banks, Totalbank. Under the name Americas Bank, it had begun in 1974 in a mobile trailer located between Little Havana and Coral Gables, well situated to accommodate the increasing movement of Cubans into the plusher parts of Miami, then unserved by Cuban institutions. Totalbank surged with the upsurge of its clientele. As of June 30, 1975, the deposits of Totalbank amounted to $8.5 million, and the bank's staff numbered 17. By 1982, when Betancourt retired, the bank's assets were some $120 million and growing at a pace of 12 percent a year, and it did business in branches throughout the city. It eschewed only the large cash deposits from "Colombia cowboys" that enriched less scrupulous local institutions and that jaded journalists identify as the source of Miami's success.

Drug money on occasion has poured into many other cities around the world, from New Orleans and Detroit to Ankara and Marseilles—and poured out—without so transforming and enriching the populace. The drug theory of Miami's wealth follows in a long "liberal" tradition of disparaging every new immigrant enterprise—from Chinese laundries to Italian florists—as either a "sweatshop" exploiting child labor or a cover for the transactions of crime. The real offense is a refusal to acknowledge the incredible efforts and sacrifices—and earned rewards—of the foreigners in our midst who give the lie to the myth of a closed economy.

José Palmero opened four more branches of Ultra Records to go with his original outlet on Calle Ocho. Moreover, Ultra imports records from throughout the Caribbean and Latin America and distributes them across the country. Dr. Oyarzun became one of the most prominent doctors in the city, the head of the League Against Cancer, and the owner of the medical building in which he first went into practice. In the early 1970s, Felipe Valls decided to plunge more deeply and directly into the restaurant and real estate fields. His restaurants were small sidewalk cafeterias, open 24 hours a day, serving small cups of *cafe cubano* and Cuban sandwiches. He would open one of these establishments, make it thrive, and then sell it to get a down payment on a more commodious place.

Valls's breakthrough came in 1971, when he purchased a large flower shop on Calle Ocho and turned it into Versailles, a large L-shaped gallery of mirrors and chandeliers, now the most popular Cuban restaurant in Miami. Valls estimates that the restaurant serves some 500 to 600 daily. Valls's first five restaurants grossed some $6 million in 1981 and were increasing their take at some 10 percent a year. And in 1982, he opened three new ones.

Like most successful businessmen operating within the US tax structure, Valls has been deepening his engagement in the real estate market, presumably to shield the profits he earns elsewhere. Through his Twin Homes Development Company, he has also con-

Photograph courtesy Ultra Records, Inc.

structed scores of duplex condominiums at a lakeshore site in suburban Miami. According to his son, who manages one of the restaurants, the essential secret of Valls's success is a readiness to listen to anyone with an idea and a confident disposition to give credit to others. "He knows that in the long run the credit will return to him." He also takes little from his businesses for his own use. It was not until 1982, after he had built scores of houses for others, that he finally moved his family out of the small place in Hialeah that he bought for $17,500 some 20 years ago.

Such continuing enterprise ensured that through 1982, despite the dreaded influx of 125,000 Mariel boat people (including Castro's notorious complement of criminals), and despite the arrival of some 45,000 Haitians, Florida still had one of the lowest rates of unemployment in the country; and Dade County, at 6.8 percent, had the lowest rate of unemployment in Florida. By 1980, Cuban households in Florida had higher incomes than other Floridians.

In the recovery of 1983, Florida with 392,000 new jobs lagged only behind the twice as populous California (449,000 new jobs) in creation of employment and led third-place Texas by 139,000 new jobs. Not coincidentally, these states were also the nation's three leading immigrant havens. By 1984, 95 percent of the Mariel group in Miami had found or created work. Among thousands of successful Cuban entrepreneurs were at least 200 millionaires. By some measures, the post-Castro Cuban exodus had been the most successful large immigration in the history of a nation of immigrants; and just as previous floods of foreigners had impelled New York into the front rank of American cities, so this latest tide is lifting Miami into a new role in the 1980s as a paramount world city, declared by Ecuador's president the very capital of Latin America.

"The best thing that's happened to Miami since air conditioning," says Chamber of Commerce leader Lester Freeman, "was when Fidel Castro read Karl Marx." Castro, in fact, by dint of totalitarian socialist planning, had managed in just two decades to lift a Cuban city to the forefront of the metropolises of the world. He erred only in supposing that this preeminent Cuban city would be in Cuba rather than in the United States.

In this sense, Castro has been the greatest benefactor of the US economy since Adolf Hitler, whose horrors contributed to the United States many of its most valuable citizens, or even Czar Alexander III, whose totalitarian oppressions ultimately revived America with some 2 million Jews. Like the Cuban ruler, the Czar provoked mass flight by focusing his offenses on children—taking Jewish boys away at age 12 or earlier for six years of indoctrination in Russian Orthodox schools, followed by 25 years of military service—and by arousing public hostility against financiers.

Food for thought: Felipe Valls and his son Felipe, Jr., at their Versailles Restaurant, the most popular Cuban restaurant in Miami. An impoverished dishwasher during his first months in Florida, Valls borrowed money and began importing espresso machines to accommodate the coffee thirst of the growing Cuban community. By 1982, he owned the Versailles and seven other restaurants, and he had constructed scores of duplex condominiums in suburban Miami.

The entire history of American economic and social progress is in part a chronicle of exiles and immigrations that echoes a prior chronicle of foreign tyranny and excess. A million Germans came to the United States in the tyrannous wake of the Revolution of 1848; a million Irish fled famine and British rule to reach America during those same turbulent years. Maoist oppression in China—like the Ming Dynasty before—contributed millions of overseas Chinese to Asian economies, and scores of recent thousands, pouring through Hong Kong, ultimately reached San Francisco and other American cities. The triumph of communism in Indochina is leading to corresponding triumphs of "boat people" in the United States.

Within the entire heroic history of immigrants and exiles, sojourners and refugees on American soil, however, the saga of the Cubans in Miami in the decades after Castro remains unique. Only the Jews swarming into New York from Russia during the two decades before World War I came faster and in greater numbers. But they never exceeded one-sixth of the city's population, while Cubans ultimately constituted *almost half* of Miami's. No other immigrant group so inundated a city, and transformed it so quickly and successfully, while achieving such multifarious business breakthroughs as the nearly 600,000 fugitives from Castro's regime who made Miami their home after 1960.

The most important effect of government plans and controls, confiscations and harassments, predatory taxes and xenophobic laws, is usually to enrich the economies of others by driving overseas a nation's most valuable resource: its most enterprising and creative citizens. Like so many socialist tyrants before him, Castro imagined that by expropriating the capitalists, he was gaining command of his nation's most important capital. In fact, he was giving it to America.

As crucial as their own knowledge and skills, however, in their legacy to America was what the Cubans imparted to their own children: attitudes, disciplines, and aspirations which ensure that, in the usual pattern of immigrant progress, many in the new generation will soon excel the achievements of their parents. The young offspring of the Betancourts, Vallses, Palmeros, and Oyarzuns, for example, include several executives in their parents' firms, a bank vice-president, a general

contractor, a reporter, and an oil company controller, all in their 20s and early 30s, as well as a number of younger college students learning business, engineering, and other needed skills. In fact, according to the 1980 census, the incomes of Cuban families whose household heads were under age 34 already exceeded the incomes of comparable non-Latin white families by nearly 20 percent.

The immigrant child in Miami who was achieving the most in the 1980s, however, was 34-year-old Armando Codina, who had come without any parents some 20 years before. By 1967, he had attracted the attention of bank executives at American National Bank in Jacksonville and received a promotion from messenger boy to teller. This gave him a chance to put his fascination with computers to practical use. In his new role, he noticed that when tellers left for lunch or other purposes, they destroyed accountability for errors and cash shortages; it was impossible at the end of the day to ascertain just who had botched the balances. This made it hard to appraise the performances of tellers and thus diminished the appeal of the job as an entry to higher levels, demoralized the tellers, and led to more errors. The teenaged Codina set to work during nights and weekends to devise a software program to computerize the teller-accounting system.

In a few weeks, he succeeded and was put in charge of other computer operations at the bank. By the time he moved to Miami with his mother two years later, Codina was so adept at computer banking that he was named a loan officer at Miami's Republic National. The youngest bank executive in the state, he was assigned the job of making loans to businesses on the basis of accounts receivable.

It was routine work, in general, checking through the billings and other receivables of potential borrowers—the kind of work that puts some minds to sleep, allows others to wander, and provokes men like Armando Codina to look at it for opportunities. One opportunity, too eagerly grasped, came close to halting the young Cuban's upward ascent in banking; but in his struggle to retrieve his position, he created for himself a new job—and a new company.

One day he was approached by a distinguished Miami physician who was embroiled in an argument with Medicare officials and needed a loan to carry him over until the dispute was resolved. Impressed with the doctor's reputation, Codina readily granted the loan, though his department was restricted to conventional business lending. Then he went before the bank's board of directors and secured approval for the new commitment. Returning to the doctor to tell him the good news, he began to negotiate the details of the loan. Because the amount was to be based on the doctor's receivables, Codina first inquired how much he was owed.

"You've heard about the American dream, the American pie," says Armando Codina. "If you want a part of the pie, all the ingredients are out there still."

"Ask Katy—she'll know," said the doctor. But the nurse didn't know either. Looking at the mess of the doctor's records—the endless Blue Cross, Blue Shield, and other insurance forms; Medicaid and Medicare forms; bills and invoices; checks and receipts—Codina realized he had made a terrible mistake: the doctor's records were in no way presentable enough to justify the bank's granting him a major loan.

Unwilling to explain the situation to his superiors—or to tell the eminent doctor that he was not bankable—Codina set to work for several weeks in the doctor's office after hours to get the accounts in order. As he pored through the paperwork maze, Codina came up with the idea that was to sweep him altogether out of the banking business and into national prominence on a tide of money by the time he was 32. His idea was that this doctor could not be alone in his labyrinth of paperwork; that if he could package a software program to deal with this problem, he could reach a market encompassing most of the nation's 300,000 physicians. While breaking the software bottleneck for an entire new industry, he could release many of the nation's independent doctors and nurses from a bondage to paperwork and allow them to concentrate on their patients.

Codina's company began slowly, against the resistance of a conservative profession. He started with a urologist named William Glantz. Every night for some 10 months, Codina and three Cuban assistants would arrive at the doctor's office just as he was leaving, and often they would still be there when the doctor returned the next morning. In the beginning, Codina continued his work at the bank, leaving sleep for subsequent years, but as time passed, he became ever more engrossed in his software project.

Codina had to figure out, in a way the doctor himself probably never had, the intricacies of his business life: exactly how his insurance forms and billings were filled out and computed; what the acceptable Medicare and Medicaid charges were; which costs were assigned to which accounts; what procedures were followed on which kinds of overdue receivables; how all these operations interacted with one another; and a host of further complications.

Then he had to design a program that put all this material in a simple, logical, and accessible data base, created useful report formats and display layouts, and in general performed the paperwork that was reducing reputable physicians with six-figure incomes into a financial stupor—unbankable and scarcely insurable but perpetually liable for all the claims and disappointments of an aging, aching, and accident-prone society.

During those nights with the computer in the office of Dr. Glantz, Codina and his company of Cuban teenagers first focused on the needs of urologists—their particular diagnoses, operations, and procedures. He designed new charts for diagnoses and billing and a standardized form for insurance claims, and eventually he got them adopted by the state. In the end, this high-school graduate from a foreign land had learned most of what there was to know about the nonmedical side of the practice of urology.

He was spending all this time and effort, however, entirely on spec, with no assurance that any doctor—even Dr. Glantz—would ever use his package or that any funds could be raised to finance its production and marketing. He was working on through the night with no certainty that any number of the many thousands of software firms cropping up across the country would not already have under way a large number of competitive software projects, being executed by highly trained and experienced teams of experts, with access to finance and marketing skills. Codina had seen a need and had a concept for a company.

He was even then creating and investing the most important capital: himself and his work. He would solve all subsequent problems as they came up.

Finally, he completed the system to the doctor's satisfaction and set forth to get a loan. With the help of Dr. Glantz and his banking contacts, he got $18,000 from the Small Business Administration. It turned out, barely, to be enough. Professional Automated Services (PAS) struggled painfully into the marketplace, but almost no one noticed that it was there.

At Christmas that year, 1971, Codina's financial problems drove him into manufacturing candles to pay the rent. More promising, though, was his marriage to Margarita, then an airline stewardess, who supported them into the next year. Finally, with the help of presentations by Dr. Glantz to the local Urological Society, the program began to catch on: first with a few associates of Dr. Glantz's, then with urologists across the state of Florida, and eventually—as Codina adapted the program to other medical specialties—with some 700 doctors and clinics. Licensing its product with seven branch offices across the country, PAS grew from Codina himself and his three friends to 220 employees in Miami alone, with offices in Jacksonville, Orlando, and Tampa. It grew until, in 1978, Codina sold it for between $3 and $4 million to Itel Corporation, then flying high on Wall Street as one of the nation's fastest-growing and most opportunistic companies. When Itel crashed in 1980, Codina repurchased PAS and resold it the same year to NLT Corporation, an insurance services conglomerate.

Like most American entrepreneurs who make large sums of money, Armando Codina has now turned from the fields he knows best and moved into the less-taxable domains of real estate. His IntrAmerican Investment Corporation is channeling funds from throughout Latin America into land speculation in downtown Miami. Like several of the city's Cubans, rich from other enterprises, who now dominate central Miami real estate, Codina's faith in Miami has never wavered through recession, riot, and an alarming wave of crime, and his faith was being requited with handsome profits through 1982. As his land surged upward in value, he led a syndicate of local investors together with interests from Britain and Spain in the purchase of a $7.5-million development site off Biscayne Boulevard. Codina plans a major development to go with his landholdings, which are among the city's best locations.

Codina, however, is still too young to suppress his entrepreneurial drive to form new companies. Upstairs from IntrAmerican is his new project, Biotechnology, Inc., begun in 1980 to manufacture a portable exercise monitor for joggers, called the Coach, which gives runners a continuous medical accounting, a recommended pace, and constant readings of speed, distance, aerobic improvement, and calories consumed.

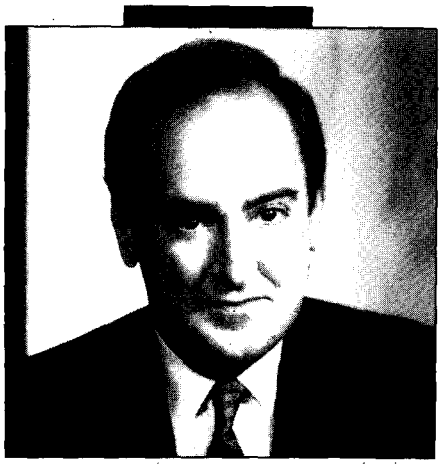
Once a scared teen-aged immigrant who knew two words of English, *hamburger* and *Coke*, Armando Codina went on to design software to help doctors run their businesses more efficiently, built a business that he sold for several million dollars, and is now planning a major real estate development in Miami.

Supply, apparently, creates its own demand in this area. The Coach sold well in test marketings in Miami and Italy. Codina may possibly have discovered a new human need. No doubt there will be many more. A compulsive inventor who has patented several kinds of locks, Codina is always alert to technological opportunity. And, it is easy to forget, he is only 35.

As he moved into the 1980s, however, Codina seemed to be reaching for a higher role. He was becoming another of those "upstart boosters"—prominent on the American frontier—who adopt an entire city as their sphere and spearhead of enterprise. Codina and the other Cuban entrepreneurs now speak of Miami with fervor and faith. As Codina says, "There is no place in the world like the U.S. and there is no place in the U.S. like Miami. Its structure is wide open, an environment of opportunity, devoid of an established hierarchy, like Pittsburgh or Boston or Dallas. It is a city of the future."

Codina at 35 is emerging as a major civic leader. He is on the board of directors of the Catholic Boystown camp that received him as an orphan 20 years ago. He is vice-president of the Miami Chamber of Commerce and an officer of numerous other civic and philanthropic organizations, and serves on Vice-President George Bush's Task Force on Crime. He was instrumental in bringing the new Insurance Exchange—modeled on Lloyd's of London—to the city. "But in a hundred years I could not repay my debt to Miami," Codina says.

In a speech in 1980, he declared at a Junior Achievement dinner: "You've heard about the American dream, the American pie, and whether they are still alive. Well, let me tell you, the American dream is alive and well. And if you want a part of the pie, all the ingredients are out there still. All you have to do is identify them, put them together, and work hard. . . . If you can do that you can still bake the biggest damn pie you ever saw in your life. . . . What has been accomplished in Miami serves as a showcase to *America* and to what free men and women can do when they work together in a spirit of harmony and cooperation for a common goal."



Roberto Goizueta was an obscure chemist at Coca-Cola's Havana bottling plant when Castro nationalized it. Today, he heads the $5-billion Coca-Cola Company.

Nonetheless, the Cuban miracle was neither confined to Miami, nor dependent on the presence of a compatible Cuban culture, nor reliant on Latin American flight capital and cocaine for stimuli. The 42 percent of Cuban-Americans who live in other states earn 15 percent higher median incomes than Cubans in Florida. Many of the most successful Cubans never made it to Miami to benefit from the alleged magic of laundered money or a wide-open urban society.

Perhaps the most impressive Cuban success story outside Miami has occurred in Atlanta, Georgia. In October 1960, when Castro confiscated Coca-Cola's Cuban bottling plant in Havana, he drove into exile a young chemist named Roberto Goizueta. Goizueta became an area chemist with Coca-Cola in Nassau, came to the United States, rose quickly through the ranks, and in 1981 became chief executive and chairman of the board of this $5-billion company. Castro got the bottling equipment; the United States got a major industrial leader. Goizueta later explained: "One thing I have learned is that the things you carry in your head, no one can take away from you. . . . Don't attach too much importance to material things, because, as I know so well from my own experience in Cuba, one individual can take all those material things away from you."

Another refugee, Juan Benitez, was to become a central figure in a phenomenally successful new enterprise in Boise, Idaho. When Fidel Castro in 1959 confiscated the business of Benitez's father—built up from nothing over a lifetime—the 10-year-old boy saw his family home plunged into bitterness and fear. By age 13, in 1962, the bright, energetic boy— short, with a warm smile and a gleam in his eye—resolved to leave for Miami. But in October the missile crisis cut off emigration, and he was forced to delay his departure until early in 1965. Finally at age 16 he made it—via Mexico City and Toronto—to Kansas City, where a brother had come to work.

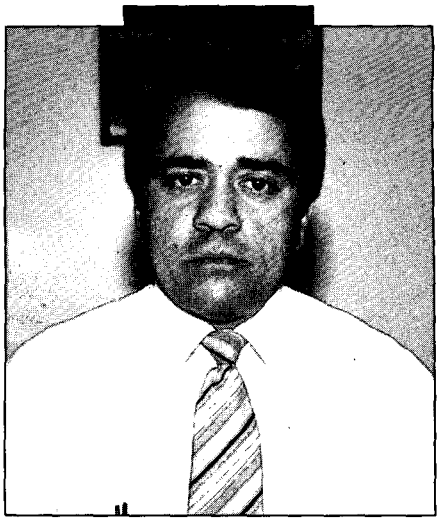
Hoping to earn enough money to bring his parents to America, the 16-year-old Juan took no less than three jobs, all at or below the minimum wage. By age 19, he managed to finish high school, partly through correspondence at night. And following his father's rule to "save three pennies from every two you earn," he accumulated enough money to head for the University of Missouri Rolla campus and made it through college in mechanical engineering.

After graduation in 1972, he found work at the General Motors auto assembly plant in St. Louis. Then, after a layoff at GM in the year of the energy crisis, he went to Hitchner Manufacturing, also in St. Louis. There he mastered a complex ceramic-molding process before the firm sank in 1975.

From Hitchner, Juan went to Ethicon, a branch of Johnson & Johnson that produced the majority of the world's sutures. Moving from process engineering to facilities construction, he managed two major plant expansions for Ethicon, learned the intricacies of clean-room engineering, and attracted the attention of a headhunting firm on assignment for Mostek in Dallas, which needed dust-free facilities for semiconductor fabrication.

Mostek, by that time, though still one of the world's leading semiconductor firms, was suffering slow sclerosis under remote management from its new owners at United Technologies. Benitez began to chafe at the rigidities of a system in which he saw that "if you begin in facilities management, you die in facilities management." Juan Benitez wanted to build a new plant from scratch. Then a tiny three-line ad in the *Wall Street Journal* caught his eye: "Small start-up semiconductor company in the Pacific Northwest looking for individual to be responsible for overall construction of a Metal Oxide Semiconductor facility." He answered it.

Three months later, Benitez received a phone call from a lady in Idaho who wanted to connect him to a Mr. Ward Parkinson, an originator—with the great entrepreneur J. R. Simplot—of Micron Technology. The conversation went well, and in very little time Juan Benitez was immersed as a central figure in one of the most momentous semiconductor construction projects—and supreme entrepreneurial endeavors—in the history of American industry.



At age 16, Juan Benitez held down three jobs, all at or below minimum wage. Years later, he directed the construction of a metal-oxide-semiconductor plant.

Juan Benitez, though unusual, was not unique. Cuban immigrants can be found in high positions in many US high-technology firms, from Xicor in Silicon Valley to Storage Technology in Boulder, Colorado. The faith of Benitez, Armando Codina, and the other Cuban entrepreneurs is the spirit of enterprise that built America. It is a faith that now burns most intensely in the hearts of men and women who come here from abroad and understand the full horror of the slide into socialism.

But this is nothing new. The Cubans are just another in the long line of immigrant swarms on the ever-changing American frontier, and their upsurge differs only in speed and number from any other in the continuing saga of American revival. Vietnamese, Central Americans, Lebanese, and even the much-abused Haitians are making similar breakthroughs. The triumph of socialism and tyranny usually results in the enrichment of America, as the "burdens" of immigration swiftly become the boons of entrepreneurial growth. Against the jaded expertise of bureaucracy and privilege, the dismal sciences of a secular professoriate, and the oppressive plans of Washington regulators, the faith of unlettered outsiders will prevail.

It has always been immigrants who have revitalized America. As long as the United States is open to these flows from afar, it is open to its own revival. ◻

George Gilder is the author of Wealth and Poverty *(Basic Books, 1981), and of other books and numerous articles that have appeared in* Harper's, *the* Wall Street Journal, REASON, *and other publications. This article is adapted, by permission of the author, from his just-published book,* The Spirit of Enterprise *(Simon and Schuster).* *Copyright © 1984 by George Gilder.*

Photograph courtesy of The Coca-Cola Company

Photograph courtesy of Micron Technology

Election ISSUE

The Democratic and Republican conventions played like a farce, but the actors on the political stage are deadly serious.

CONVENTION COMEDY

By Thomas W. Hazlett

The 1984 presidential campaign has featured a militant anti-Semite who is billed as the "moral conscience" of America; a notorious peddler of "new ideas" whose chief personal commitment to newness consists of his assumption of a new name, new signature, new age (his birth-certificate age minus two), and a newly acquired ability to use the phrase *future generations* from four to six times per paragraph; a high-priced Washington lawyer-lobbyist who, shortly after cutting deals with every major leftist lobby in America, promised to unify the country by ridding the federal government of influence by special interests; and an incumbent who is reported to nod off during high-level national security meetings, does not recognize his own cabinet members, and is careful to have his wife stand by his good ear so as to prompt him during press questioning. Is this a great country, or what?

If the "Nobody for President" movement has not overtaken the American presidential parade, our politics are plainly inexplicable. Can statistical coincidence be blamed for the collection of nobodies spun upon the 1984 political stage? Ours is a system that *prefers* to divert its buffooneries to the public arena, where they may be closely watched, and so at least provide quadrennial entertainment in the form of primaries, conventions, and campaigns.

There is Jeffersonian genius at work here. Britain has brilliant (Churchillian!) politicos but is currently struggling to stay above Spain in the world's pecking order. France enjoys eloquence in its leaders, as do Egypt, Cuba, and China. V. I. Lenin was arguably the brightest man of this century to organize a government, but any who are not truly embarrassed by his vision ought to be the ones receiving Soviet electroshock rather than inflicting it. In America, a nonentity nearly always makes a finer "leader" than the brilliant. The last US president to have an inkling of what foreign affairs was about (Nixon) nearly ended his career in federal housing (meals provided, Sunday visitation); and the man before him, known to be an astute manager of men, politics, and government, was largely liable for the debacle of Vietnam. The brilliance of the American system is that it not only can function when led by losers—it functions *best.*

Hence, one may look to our future, in 1984, with great expectations. The reasons why were in great evidence at the two major parties' nominating conventions this summer.

For politicus Democratus, the magical scent of passion is synonomous with the aroma of moral righteousness. A Democrat will display his concern for Truth, Justice, and federal housing for the disadvantaged the way a streetwalker displays her cleavage. The Democrats will wreck the economy, plunge the nation into war, and tax away your entire paycheck, while claiming they did it for God and your own good.

At the Democratic convention in San Francisco, a very popular badge featured the word *Hunger* with a prohibitive line slashed through it. I asked some champions of the hungry sporting this fashionable Democratic medallion (generally while they were having lunch, which is an excellent way to abolish hunger), what position they thought their party should take on agricultural marketing orders, dairy price supports, and payments-in-kind to farmers. To a Democrat, their pupils dilated while their tongues sputtered. These are activists who wear their concern for the poor on their sports coats but oppose a policy of getting farmers to grow more food.

Among the Dems' prized contenders for the presidential nomination, Jesse Jackson was the moralist, Gary Hart the thinker, and Walter Mondale the nonsense man of worldly experience. All roles are hysterically funny, in the light of current evidence—particularly Mr. Mondale's tag, gained by virtue of having been closer to President Carter than any veep in history. How this qualifies a man to boast of his wealth of achievement under fire in government is no small part of America's continuing success story. The important thing about these perceptions is that the Democrats took them on faith. That they roundly re-

Illustrations by Kevin Pope

jected their idealized versions of the reverend and the futurist in favor of the plugged-in pol who will get them their federal contracts back says a lot about the current dilemma faced by idealists in the Democratic Party.

In opting for Walter Mondale, the Democrats may merely be demonstrating the veracity of pollster Patrick Caddell's observation that the party has suffered "brain death." As the *New Republic* wrote, Mondale's struggle for the Democratic nomination was not so much a campaign as it was a lobby: "Mondale, Inc." The former assistant president has never been elected to an office he wasn't appointed to first (Minnesota attorney general, US senator, and vice-president—counting Carter's selection as an appointment). True to form, he has this year captured a nomination to which he was first anointed by the AFL-CIO, AFSCME, NOW, and the NEA.

While Ronald Reagan's biggest problem may be that he can't stay awake through cabinet meetings, Mondale's problem is that he *can*. He was surely moved to hear his apparent heir, New York Gov. Mario Cuomo, tell a mesmerized arena full of Democratic delegates in San Francisco that "we insist on *all* the government we need...a government strong enough to use words like *love* and *compassion*." The analogy of the Government and the People as friends and lovers strikes any true American—particularly divorced ones—as horrific. A jilted amour can provoke a sleepless night; a jilted bureaucrat (or just an incompetent one) can mess with your *life*.

Americans have always known this, even before there *were* Americans, which is why we *became* Americans. Mondale and the Democrats keep hoping for a Europeanization of America, a dichot-

And the Winner Is...

Event: **Best Music** — Winner: **Democrats**

The manipulation of crowds can today be accomplished by a sophisticated high-tech combination of audio, visual, and air conditioning. The blasting of an inspirational melody, triggering a common emotion in the multitudes, is an essential convention trick, now aided by computer-age woofers and tweeters. The best song played after a Republican convention speaker was "Oklahoma!" following Jeane Kirkpatrick (Oklahoma being the state of her birth). The Dems offered the delightful "Chariots of Fire" theme after Gary Hart, in honor of jogging yuppies on all continents. The Dems also hit "New York, New York" after Mario Cuomo and Geraldine Ferraro, adding the Village People's "YMCA" one song later for Gerry. The Mondale performance was followed by "Let's Celebrate," while the Republicans kept running "Happy Days Are Here Again" after nearly every speaker.

Event: **Best Free Beer** — Winner: **Republicans**

Every convention for decades has seen the railroad industry host the Railroad Press Lounge. No, this is not for the exclusive enjoyment of reporters for "Rail Age" but is a refreshingly open attempt by the train lobby to buy off the nation's press corps. Reporters are issued passes to the lounge with their press credentials, entitling them to an abundant supply of free beer, sandwiches, potato chips, and TV sets (which is the only access a print journalist generally has to the convention's events, the hall being nonconducive to much reportage). In California the free beer was largely Anchor Steam, which this reporter finds a little too thick for his pro-American palate. The Texans did better with Bud, Miller, and Miller Lite. Chalk this one up for the GOP.

Event: **Best Public-Interest Button** — Winner: **Reps**

Don't mess with the adopted party of John Connally on blatant public-interest issues (you remember John Connally—the Democrat who wouldn't go Republican 'til Watergate made him feel at home). Republicans sported buttons recommending "Vote Braniff." Simple and to the point, the way politics *ought* to be.

Event: **Best Public-Interest Hospitality Suite** — Winner: **Toss-up**

Philip Morris, the well-known supporter of philanthropic causes like cancer research (how much less research we'd need if not for Philip Morris), invited Republican delegates to their hospitality suite at the Plaza Hotel to partake of "cold Seven-Up, Miller beer, and find 'agricultural foodstuffs' in the form of Marlboro, Benson & Hedges, Merit and our other brands." The Democrats took their puffs in an R. J. Reynolds suite in the posh St. Francis Hotel. We'll have to chew on this one a while...

Event: **Classiest Party** — Winner: **Reps (by proxy)**

After hearing the Democrats talk about Reagan dividing America into the Royalty and the Rabble, this shouldn't be tough to figure out. The first night in Dallas, I had to bully my way past a bouncer to gain access to a high-class affair, complete with a big band, at the Anatole. Taking notes on the tuxedos and evening gowns, I captured this bulbous Republican display of wealth in its full grandeur. On the way out I stopped to ask a bartender, "Is this a Bush campaign affair, or which committee is sponsoring this?" No, I was told. It was the Cadillac Dealers Association bash. Oh, well, a straightforward mistake. Let's call it Republican anyway.

Event: **Best Reception** — Winner: **Reps**

Then there was the "Reception Honoring Republican Women Office Holders Hosted by the International Brotherhood of Teamsters." These political bedfellows seemed destined for love at first bite; the food lay-out was awesome! The cracked crab, fresh shrimp, and salmon hors d'oeuvres were my favorites, but there were plenty of additional delicacies to choose from. (Their open bar served delightful Bloody Marys.) Burly men circulated amongst the GOP dowagers and occasionally asked, "Are you having a good time?" "Yes, sir, a *wonderful* time. Please tell us something about your organization, the Teamsters," was the most popular response.

Event: **Worst Reception** — Winner: **Reps**

The Dole Corp. hosted a Pete Wilson (junior senator from California) reception at Dallas's elegant Anatole Hotel. Despite high expectations, the room was crowded with 1,500-2,000 free-loaders, and the food lines were long. The pasta dishes were cooked for each order, thus holding up the free-loading process, and tasted entirely flat (at least the dish with clam sauce). The drinks were free but thin. Then Senator Wilson gave a speech.

Event: **Political Comeback of the Year** — Winner: **Reps**

Gerald Ford avoided injuring himself on the podium, in a remarkable display of agility. He also delivered a fine crowd-rouser that showed off the former president as virtually articulate. A stunned Republican crowd was so thrilled by the event, the band followed his performance with a lively rendition of "Hail to the Victors" (in spite of Mr. Ford appearing in that very morning's newspaper trivia quiz as the answer to the question, "Name the only American to be both vice-president and president without ever having been elected to either").

Event: **Best Podium Impersonation** — Winner: **Dems**

Jimmy Carter, whom the Democrats greeted warmly and rushed on-stage so as to be excused before prime-time EDT, was in rare form. In the best platform swoon this reporter has ever witnessed, the alleged former president warmed our innards with his patriotic pitch: "Our hearts will swell with pride to call ourselves Americans." His delivery was virtually indistinguishable from that of his apparent model and mentor, the *Our Gang* comedy character Alfalfa.

Event: **Most Intellectually Stimulating Program** — Winner: **Reps**

Dallas's Anatole Hotel displayed the following advertisement for its bookstore presentation: "Ex Libris is proud to present an autograph session with L. William Traxler, editor of *Along Wits Trail: The Humor of Ronald Reagan*, and Anne Lindsay Greer, author of *Cuisine of the American Southwest*." The Democrats had a speech by Gary Hart, but it contained not a single recipe.

Event: **Most Patronizing Program** — Winner: **Reps**

What do these three people have in common: Elizabeth Dole, Margaret Heckler, Jeane Kirkpatrick. Chromosomes? Whatever—they were feted at a Neiman Marcus rally by the Republican conventioneers. It takes a lot to beat the Democrats at tokenism—Mondale was nominated and seconded by an ethnic tick-tack-toe of black mayor Tom Bradley, woman bureaucrat Ann Richards, and Hispanic Representative Robert Garcia. But the Republicans made a very fine showing at the mall with this one.

Event: **Most Ingenious Stunt on a Convention Platform** — Winner: **Dems**

A union organizer addressed the Dems with a monotone tirade against the infamies of Ronald Reagan's presidency that could only be salvaged by a brilliant climax. Indeed, the resourceful speaker was equal to the task: in the cluckish voice used by Johnny Carson when doing editorial replies in a duck hunter's hat and Pendleton, the union organizer abruptly spouted, "We must blow the whistle on Ronald Reagan." Whereupon he blew a shrill whistle and stomped off stage. As the vast majority of Dems were paying no attention to the speaker, there was little reaction, although among the attentive, blank stares outnumbered the applauders, 8 to 1. The Republicans had nothing even approaching this for ingenuity.

Event: **Most Ironic Political Argument** — Winner: **Dems**

Democrats, in defending Geraldine Ferraro as a candidate *not* picked for her chromosomes, pointed out that Spiro T. Agnew was another veep selected without much national experience. Good point.

Event: **Best Social Conscience** — Winner: **Dems**

The Democrats have a keen perception of life's injustices. As I pulled away from a San Francisco curb, a Democratic delegate in her mid-40s points at my taxi and screams: "One person!" How morally offensive of me not to confer with the Board of Commuters before arranging a 15-block voyage. Just try getting a Republican riled up about one-person cab rides!

Event: **Best Comment Heard at Either Convention** — Winner: **Dems**

A three-foot robot in the employ of *USA Today* was set spinning on a crowded San Francisco plaza near the convention center. Approaching a middle-aged political activist with approximately 85 buttons festooned on his hat, the computerized smart aleck asked the crusader, "Why do you wear your memory cells on your head?"

omizing by social class into plebeian and nobility. Reverend Jackson, who denies that America's line on opportunity has ever included his clients, is an ardent promoter of this faith. But Gary Hart's yuppies can only harbor such fantasies by discounting their own formidable opportunities in life or by assuming wholesale guilt for the plight of the less-fortunate.

Of course, the vast majority of Americans have never shared the Mondalian vision of a people helpless to act without federal supervision and do not believe for a minute that a vote for Mondale will procure them a three-bedroom townhouse with wet bar, jacuzzi, and attached parking. So, like the wolf picking up on Little Red Riding Hood, Mondale must carefully measure his steps to the White House.

In a San Francisco monologue reminiscent of the sly Eddie Haskell of *Leave It to Beaver*, Mondale accepted his party's nomination in his nicest, most-innocent pose. "Hello, Mr. and Mrs. Cleaver, can our party come in, stand for the Family, and wave the flag?" His historic defenses of school busing, teachers' unions, high taxes, protectionist trade, regulatory barriers, and legal policies that place the court burden of violent crime on its victims were no more in evidence than the contraband Eddie Haskell was sneaking in to the Beave.

For his part, Reverend Jackson didn't sneak around on the podium in San Francisco. He made it clear to all but those officially qualified for federal funds as mentally incapacitated that the poor are poor *because* the nonpoor are too rich. Jackson wants to actually give

blacks at least a fraction of what white Democrats have been promising them and is either too honest or too stupid to avoid mentioning that this will mean massive tax hikes for what he calls the "super-rich" (but are in fact those Americans knocking down anything over $20,000 annually).

The enlightened word on Jesse is that he has courageously blazed a path for a black American to soon run and win the presidency. The truth is that the Reverend Jackson has made it far more difficult for a legitimate candidate who happens to be of black parentage to be taken seriously. One black delegate to the Democratic convention commented, after Jackson's revivalist hypnotism of the Dems, "I guess that a black candidate won't ever be a joke again."

Not as funny a joke as Jesse, at any rate. His entire campaign played to the delight of pure racism: blacks voting for Jesse *because* Jesse is brash, black, and running for Prez. Andrew Young, who for all his estimable faults *is* a serious participant in our nation's political affairs, told Jackson's friends in the press: "It makes us feel good to scare white folks. But this is counterproductive. In a minority situation you've got to bring the country along."

Jackson reintroduced old-fashioned bigotry on a scale not seen in national politics for three generations. His colorful "Hymie-town" language was a slice of this, but an even larger chunk was his indignation that a *black* reporter ("blood," dig?) would let this Jacksonism slip to a white colleague at the *Washington Post.* Jackson's major slander was not against Jews but of his fellow blacks.

That Jackson was to herd upwards of two-thirds of the black vote, sheep-like, into a bitter and vengeful crusade, while receiving only patronizing courtesies from his white Democrat rivals and eager indulgence by the press, will alert the vast majority of Americans that a black candidate will be judged by a different standard from a white. Certainly the most sensational revelation of this sad fact was the mere possibility of Rev. Louis Farrakhan serving as stump campaign stand-in for Jackson. Referring to Judaism as "a gutter religion" and touting Der Fuehrer as "wickedly great," the black-separatist Farrakhan routinely issued death threats throughout election '84: against the *Post* reporter who finked on Jesse's "hymies" commentary, against the reporter's wife, against Jews in general, against Jews in the press, against the press in general, etc.

Incredibly, Jackson ended his campaign with a challenge to white Democrats: "It is remarkable that not one white member of the House of Representatives, not one white US Senator, not one governor, not one major or minor white newspaper, endorsed my candidacy." That is odd? *Odd* to find people are unlikely to endorse campaigns that are issuing death threats to annihilate them?

But the Dems were chilled to their bones to hear Jesse's moral outrage in San Francisco. Sanctimony does for a true Democrat what musk oil does for the average American, and Jesse filled Moscone Center with the aroma of The Wronged. To a rapt audience of believers, he performed a solo orgy of hate, guilt, repentance, and political economy. To his cry, "Our time has come, Our time has come," the audience cried back, "Hallelujah," and "Amen." Jesse progressed into a frenzy, sweating through his designer shirt in the hour-long sermon, his hands contorting into claws by the three-quarter mark. In the end, Jesse seemed of another planet, twitching to his rhymes. The best: "Jesus said we should not be judged by what we wear, but by the fruit we bear." (How thoughtful of the Messiah to rhyme in English.)

Democrats were enthralled and ecstatic, apparently oblivious to the political reality that every Jacksonian bellow was responsible for the registration of 12,461 additional poor-white precincts in the Bible Belt. After his fiery oration, the awed crowd held hands, stranger with stranger, and swayed to the rhythms of the Negro spiritual "Ordinary People." And then, to complete the experience, the top-notch public-address system belted out the instrumental muzak version of the O'Jays' superfunk hit, "Love Train."

There was no preconvention Republican campaign, which made the Republicans *very* popular right off the bat. Their standard bearer, Ronald Reagan, is rumored to have passed away three years ago, shortly before administration officials began writing articles which began, "Now that the battle to cut big government down to size has been won,..." Reagan will apparently be replaced by an empty suit labeled George Bush.

The Republicans did, however, adopt a platform in Dallas. Party platforms are only important as an exercise in not giving your opposition any ammunition to use against you in the campaign; the parties would like to abolish their platforms so as to put nothing at all in writing, but *not having* a platform would be even better ammunition than a stupid one.

I read the 1980 Republican platform and liked the part where it said, "The Republican Party...pledges to place limits on federal spending as a percent of the gross national product (GNP). It is now over 21 percent." My mistake was that I thought they meant a *maximum* limit. But this year's budget will devour 25.7 percent of GNP (our highest peacetime share ever); they must have meant a *minimum* limit.

Not knowing how to translate most of the platform into English, I read little of the 1984 edition. Yet I did happen to spot an interesting commentary on the Federal Reserve, allegedly plugged in by supply-side Congressman Jack Kemp, blaming Paul Volcker for being too stingy with the money supply. Inflation, like drugs, knows no ideological prejudice: it gives everyone a buzz.

Eric Hoffer, the philosopher-longshoreman who passed into history last year, observed in his posthumously published autobiography that watching his union represent the dock workers of San Francisco reminded him of "the uniqueness of America....It was exciting to watch a barely literate longshoreman acting as president and doing his job competently."

Yet Hoffer's endorsement was not universally shared. "There were a few intellectuals in the union, and invariably they felt frustrated and angry when a common longshoreman was elected to high office and performed tolerably well. It did not occur to them that it was part of America's uniqueness that in this country nobodies perform tasks which in other countries are reserved for elites. Like America, the union was founded by a leader. Harry Bridges is a sort of Jefferson. And like Jefferson, he created an organization that functions well without leaders."

Jesse Jackson has never understood this most magical property of the American experience. In his call for leadership he scolded the Democrats in San Francisco, "Leaders change things." But Hoffer's vision, of a land run by nobodies, is the Americans' proud heritage as well as the intellectuals' crude rebuke. It should give little pause for concern that the voters are essentially confined to choosing either Ronald Reagan or Walter Mondale come November 6. Either man is easily nobody-enough to rule, in the America of Jefferson.

Contributing Editor Tom Hazlett is a free-lance journalist and a professor of economics at the University of California, Davis.

RUNNING THIRD

What it's like to run for president as a third-party candidate.

By David Bergland

No presidential campaign is what it appears on prime-time television network news—hordes of newspersons, chanting crowds of boosters, and entire cities turning out to see the candidate. Even though these images become the standard against which all campaigns are measured, any thoughtful person realizes that the reality behind the image is something very different for Democratic and Republican candidates. And it is even more different for candidates of a so-called third, or minor, party.

I know. Last year, I was selected as the 1984 presidential candidate of the Libertarian Party at its national convention in New York. My past experience as a Libertarian candidate for other offices and as the party's national chair for five years provided me with more forewarning than almost anyone else could have had of what was in store. Still, my life on the campaign trail since then has certainly not been what I—nor anyone else—might have expected.

In any substantial endeavor there is a division of labor. My job, as the candidate, is to answer questions. At press conferences, in individual media interviews, giving speeches to civic organizations, students, and other groups—answering questions is how I spend most of my time. Researching and preparing to answer questions is how I spend most of the rest of it. One can learn a great deal about America and its people simply by listening closely to the questions posed by them and their putative representatives in the media during a presidential campaign. How they respond to libertarian answers is also illuminating.

In the hundreds—perhaps thousands—of media interviews I have done since starting the campaign last fall, the most predictable question has been, "You know you don't have a chance to win, so why are you running?" A related, and almost as predictable, question is, "Even though I basically agree with you Libertarians, wouldn't I be wasting my vote on you, since either the Democratic or Republican candidate is going to win?"

These questions reflect the fact that most interviewers put a lower priority on the issues than on the contest, or "horse race," aspects of the campaign. Presumably, media interviewers think that voters want to know only about the candidates with good prospects of being elected. So my Libertarian positions on the issues and the contribution my arguments can make to the political debate are less important to the typical journalist than the personal factors that have led me to become a candidate. This is the exact reverse of my own priorities.

One main objective of the campaign is to make Libertarian analysis of the issues and approaches to them a regular part of the American political discussion. Achieving that objective is a way of "winning" that does not require being elected. It *does* require sufficient reporting of Libertarian stands on the issues.

One encouraging example of such winning occurred at a well-attended press conference at the state capitol in Albany, New York. I had been answering questions for about 30 minutes, and it was becoming quite clear that Libertarians take a dim view of large, costly, and intrusive government. One young reporter was prompted to ask, "Mr. Bergland, would you describe our government as a totalitarian government?" After some

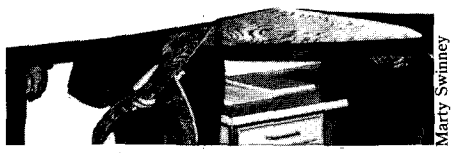
Photograph by Jeanette Allen

thought, I responded, "No, not so long as we have a free press and open elections." How *would* I describe our government, he asked. I said the best description is "a corporate-fascist, welfare-warfare state."

The reporter asked to know what I meant. I explained to him and the others present that the hand-in-glove relationship between big government and big business—the subsidies, the bailouts, the protections against competition, the pervasive regulatory schemes—justify the "corporate-fascist" label. I added that our huge, costly, and demeaning welfare plantation system that benefits government employees while hurting the poor, and our global interventionist foreign policy that results in ever-increasing military spending and benefits the military-industrial complex at the expense of the people, justify the "welfare-warfare" label.

Those comments went out on the wire services, and for several days I had many opportunities to elaborate on my characterization of our government as a corporate-fascist, welfare-warfare state. No other presidential candidate, particularly Reagan or Mondale, is willing to challenge prevailing political views in such strong and accurate terms.

The Libertarian Party has grown dramatically in the 12 short years of its life, and I've been able to see first-hand just how far it's come. In 1976, Roger MacBride was the presidential candidate and I was the vice-presidential candidate. We were on 31 state ballots and received about 175,000 votes. By the time of the 1980 election, the party was well established as the country's third-largest. Presidential candidate Ed Clark and his running-



Marty Swinney

mate David Koch were on the ballot in all 50 states and received almost a million votes, about one percent of the national total. (A major factor in this success was David Koch's contribution of over $2 million to the campaign, approximately two-thirds of the total campaign budget.)

The Libertarians now have party organizations in all 50 states, some much more developed than others, and there are about 50 Libertarians holding local government office. There are no Libertarian officeholders in state legislatures or Congress, but two Alaska Libertarians have previously held state legislative positions (see sidebar below).

I remember vividly that in 1976, the most common question was, "What is the Libertarian Party, and what does it stand for?" Frequently the questioner had trouble even pronouncing the name (*libertine* being a favorite fall-back). Now recognition of *Libertarian* is relatively wide. A 1982 public-opinion survey in California to determine the Libertarian Party's name recognition turned up a credible 61 percent. Of course, that was California, where the party has been quite active since 1972. Now, when speaking to nonlibertarian groups, I often ask how many had heard of the party or my campaign before learning of my appearance there. I'm pleased to say that the responses vary from about two-thirds to 100 percent.

Another way we are "winning" in 1984 is by educating hundreds of journalists, college professors, and others in basic libertarian ideas. From my past experience, I knew that a significant obstacle to the party's success was ignorance and misperceptions about the party and its underlying philosophy. Accordingly, the campaign has put together a media kit that includes (in addition to the usual paraphernalia) a party history, a Q&A booklet, and a one-page item, "Libertarianism in One Lesson," that is designed to clear up some of the more

Libertarian Lights

In the 12 years of its existence, the Libertarian Party has attracted a variety of individuals from a variety of backgrounds. Two who have made their mark on the party *in quite different ways* are Dick Randolph, an Alaska insurance agent, and Tonie Nathan, a TV newswoman *and producer in Oregon*.

Randolph has been the Libertarian Party's most successful politician. Like many other party activists, he was a disenchanted Republican when he discovered libertarianism. "The first time I got involved in political activity was the Goldwater campaign in 1964," *he told* REASON. He was elected to the Alaska state legislature as a Republican in 1970 and 1972, but his experience there soured him on Republicans. "I was very disillusioned with the hypocrisies of conservative Republicans," he recalled. "There's a big difference between what they profess and how they perform."

By 1976 Randolph had left the Republican Party *and was serving as the Alaska coordinator* for the presidential campaign of Libertarian Roger MacBride. The Republicans' loss was the Libertarians' gain. Two years after making the switch, Randolph was elected on the Libertarian ticket as a state representative and was reelected in 1980.

Dick Randolph: Elected twice to Alaskan legislature as a Libertarian.

Two years later he ran for governor, winning 15 percent of the vote in a three-way race (few Libertarian candidates ever garner as much as five percent of the vote).

Alaska Libertarians currently have about a dozen elected officials, and although Libertarians elsewhere have not yet succeeded in winning any state (or federal) offices, Alaska voters have elected Randolph twice and another state representative, Ken Fanning, once in 1980. Fanning went down to defeat in 1982, and no other Libertarians won state legislative seats—but according to Randolph, "we were strong enough by that time that we could have elected others that year if we hadn't put all our resources in the governor's race."

An indication that the Libertarian Party is a force *to reckon with in Alaska has been a* string of victories in state-initiative campaigns. In 1980, it organized such a campaign to repeal the state income tax. The initiative seemed headed for victory when, shortly before election day, the state legislature beat the voters to the punch and hastily repealed the income tax on its own. This is the only time any state has rescinded an income tax.

The Libertarian Party was also behind what is known as the "tundra-rebellion initiative," a measure establishing state government jurisdiction over federally owned land in Alaska. (It passed by an 82 percent landslide, but Randolph says that the current *governor*, Bill Sheffield, has refused to enforce it.) And the party organized a successful petition campaign to give Alaska voters the chance to vote this November on deregulating intrastate transportation.

Randolph has been working actively this year on behalf of four Libertarian candidates for the state legislature. "I don't have any specific plans to run for office myself," he

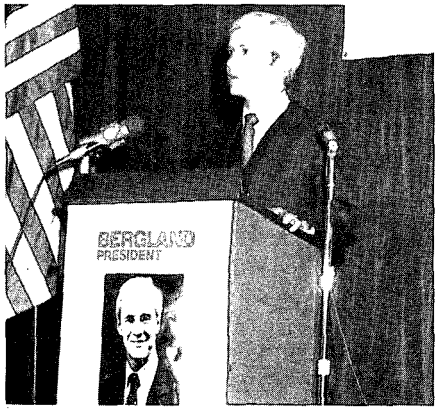
Photograph by Imagery

common misconceptions and lays out, in quotable form, some of the most basic libertarian concepts.

We are succeeding in educating the journalists. In the past, a common practice of print journalists was to write what I call a laundry-list article. This is a compendium of Libertarian Party positions on a number of issues, usually the most controversial, with no discussion of our principled basis for taking those positions. A typical article would go something like this: "Libertarians are for ending all government support of schools, fire departments, welfare, Social Security, and business subsidies. They want to repeal all laws against drugs, gambling, prostitution, pornography, and gun ownership. They say the US government should get out of NATO and the UN, end foreign aid, end military alliances, and stop the nuclear arms race. Libertarians want to cut government down to nothing and then some. They are radical right-wing and left-wing at the same time. Weird."

Today, laundry-list articles are quite rare. Reporters have come to know better. Among journalists, the party has established substantial credibility for itself and libertarian ideas because it has kept working and not gone away, and its candidates consistently adhere to the principles of individual liberty.

In the past, many interviewers did their best to question me about issues where they thought the Libertarian position would be unpopular in order to see if I would waffle. An example was, "You really advocate repeal of *all* drug laws—even against *heroin*?" Now, many journalists are informed about our principles, and many have even told me that Libertarians receive a great deal of respect for



Libertarian Party

that reason.

Sometimes journalists even make comments like, "I agree with you guys, but it's impractical. We'll never get there." Such statements are cause for optimism, in my view. People who have arrived at that position may soon be saying, "If it's right, let's give it a try."

It is encouraging to me when interviewers answer their own questions because they have grasped the party's principles well enough during the interview to see how they apply to given issues. A common area of inquiry is financing the campaign. When it comes up, the questioner will often ask, "Since you are opposed to taxation in principle, you probably don't take federal matching funds, do you?" The answer, of course, is that we will not take any stolen property in the form of taxes for our campaign. No Libertarian would.

I also take the opportunity to point out that according to the *National Journal*, the Democrats and Republicans together will extract about $130 million from the taxpayers for "matching funds," convention expenses, Secret Service, and related expenses in connection with their campaigns. That alone is reason enough for any working, taxpaying voter to reject both of them. By comparison, the Bergland-for-president campaign has a projected budget of $1.5 million, all of which will come from voluntary contributions.

One interesting misperception about the Libertarian Party is that it is made up of wealthy, upper-middle-class whites who have it made, will benefit from freedom, and could not care less about those who might not. I hope that my campaign is serving to disabuse people of this fallacy.

Recently, at the beginning of an interview at the *Las Vegas* (Nev.) *Sun*, a reporter was asking me how I respond to the charge that the party is an elite party, when in walked my campaign aide and

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told REASON. "First, I want to see what happens in 1984."

Unlike Randolph, Oregon's Tonie Nathan is busy with her own campaign this year, running in a nonpartisan race for county commissioner in Lane County, Oregon, where her home town of Eugene is located. She has already survived a grueling primary that eliminated well-connected politicians in the area.

In some ways, Nathan is like any number of other Libertarian candidates this year, but in an important way, she's very different. Running as the Libertarian Party's vice-presidential candidate 12 years ago, she became the first woman in history ever to receive an Electoral College vote. When the Electoral College convenes in December, Geraldine Ferraro will be following in Nathan's footsteps.

Curiously, when Nathan attended the 1972 Libertarian Party convention in Denver, running for vice-president was not in her wildest dreams. She was a producer at KBAL-TV, the local NBC-affiliate television station in Eugene, Oregon, and the hostess of a daily show called *Dialogue*—something of an accomplishment at a time when few women had jobs in broadcast news (she was then the only TV newswoman in Eugene and one of only three in the state). Nathan had been attracted to individualism upon reading books by novelist-philosopher Ayn Rand, and she went to the Libertarian convention in

Tonie Nathan: First woman to win an electoral vote.

1972 intending to make a documentary on the beginning of a third political party with which she was already sympathetic personally.

"I thought I could combine a vacation in Colorado and do the documentary," she recently told REASON. Indeed, on the day before the convention was to nominate its candidate, she had breakfast with philosophy professor John Hospers to discuss his new book *Libertarianism*. Neither expected to be nominated for anything. By the next day, he was the Libertarian candidate for president; she, for vice-president.

She was nominated by a fellow Oregonian and, like other candidates, Nathan was questioned by the convention delegates. "No one at the convention even brought up the fact that I am a woman," she recalls. "No one asked if I was married or how many children I had. They asked me rational questions about my background and how much time I could devote to the campaign. What was important to them was that I was a media person and would know how to deal with other media people."

The Libertarian ticket did not win any states in the November 1972 elections. But when the Electoral College subsequently convened, a Republican elector from Virginia, Roger MacBride, broke with custom and, instead of voting for his party's slate, cast his vote for Hospers and Nathan. (Four years later, MacBride was himself the Libertarian presidential candidate.)

Lately, she has been called by several reporters asking for her reaction to Geraldine Ferraro's nomination as Walter Mondale's running mate. "I was delighted by her selection," she says. "It was way past time." And she adds, "Of course, she'll be the *second* woman to be getting an electoral vote."

—P. G.

fundraiser, Dick Boddie, who is black. We all chuckled, the reporter somewhat sheepishly, and then she said, "Well, I want an answer to that question anyway."

Dick and I jointly elaborated on the idea that the party's appeal is generally to voters capable of exercising independent thought, regardless of group labels. In one sense, the party *is* elite—in that a little independent thinking is required to learn about it, its views, and its goals.

Most Libertarian activists in fact are young, starting careers and families, and have little money to contribute to political campaigns. If we really were a wealthy elite, there would be a lot more in our campaign coffers! And corporate PACs have contributed little or nothing to the campaign, for corporate managers seem interested only in the short run and therefore support only candidates who appear to have a good chance of being elected.

The extent to which the journalists focus on the contest aspects of the campaign varies with the media. TV news interviewers are the worst. Political sophistication is apparently not a job requirement. Most TV news spots are 30 to 60 seconds long, so one colorful quote from the candidate, regardless of how much tape is shot, is all that will appear on the broadcast. TV news people, I am convinced, perceive TV only as an entertainment medium.

Early in the campaign, I discovered that the first TV interview question would probably be, "You know you can't win, etc.," and that if I made a statement conceding the truth of that proposition, that was the statement that would be broadcast. So I stopped doing that and concentrated on making concise, provocative statements on substantive issues. This has improved the TV news spots, from my point of view—but not always from the reporters'. I have been amused several times when the interviewers have returned to the same question, trying without success to elicit the "I know I can't win" statement from me.

In fact, my view is that no one, including me, has a basis to predict the outcome of the 1984 presidential election. Clearly, if every voter dissatisfied with the choice of Mondale and Reagan were to vote for me, I would win in a landslide. Among liberals, the Hart and Jackson success was based on an appeal to those fed up with the old Democratic status quo. During the primaries, a number of Hart and Jackson supporters told me that if Mondale were the Democratic nominee, they would vote for me. Among conservatives, Reagan's 1980 success was based on his promise to reduce the size of government, cut taxes, and get government off the backs of the people. But his conduct in office has all too often been the opposite of his campaign rhetoric, and many of his 1980 supporters have told me they will not be fooled again and will vote Libertarian this time.

During the course of a full-time campaign that began more than a year ago, have traveled to 40 states, giving talks to many nonlibertarian groups. I ask them questions, too. The responses indicate to me that most Americans are agreed that government is too big and must be reduced substantially, that taxes must be cut drastically, that government interference in our private affairs should be reduced, that government intervention in the economy is causing problems and should be cut back, that the US government should curtail its interventions abroad, and that the nuclear arms race is out of hand. In short, it seems to me that most Americans are libertarians—they just haven't discovered it yet.

I am reminded of another frequently asked question, "When did you become a libertarian?" My answer to that is: June 4, 1935. I was born on that day. I was born free. So were you. I was born with all the rights all humans have. I have the *right* to control my life, my body, and my property. You have the same rights. In order to live my life fully, to exercise these rights fully, I must have a free society in which to live. A free society is my birthright, and I intend to claim it.

That's why I have to correct the goodhearted libertarians who approach me frequently in my travels to express appreciation for the effort I am making on behalf of freedom. Often they thank me for making such a "sacrifice," for "taking a year out of my life," or something similar. It is true that my law practice has been put aside for a year and that almost full-time travel is wearing. But I see this, not as a sacrifice, but as an investment in a future that I believe is attainable. I am not taking a year out of my life. I am spending a year working to bring that free society of the future closer and meeting hundreds of remarkable, wonderful people in the bargain. What a story to tell my grandchildren!

So many Americans feel, at this time, that they are powerless to change things, to recover control of their lives from government. They suspect that things will turn out the same regardless of whether we wind up with Reagan or Mondale in the White House. This sense of hopelessness is manifest often in the "wasted vote" question put to third-party candidates. Too many people think they must vote for the lesser of two evils because who is in office is all that counts, even if the difference is minimal.

What these people don't realize is that voting can serve another purpose than selecting the lesser of two evils—it can serve to influence the future policies of those in office. A vote for any Democrat or Republican tells all of them that you like what they have been doing and that you want more of the same. For anyone fed up with the status quo, *that* is the wasted vote. A responsible voter will determine what he or she thinks is right for the direction of American politics and then vote for the candidates that best represent that direction.

Most Americans do seem to want to reduce the size, cost, intrusiveness, and danger of government and its policies. Almost without exception, Americans agree on the fundamental value of freedom and the vision of the founders of America. Of course, liberty does have a price. That price is best stated in the words of William Allen White: "Liberty is the only thing you cannot have unless you are willing to give it to others." In no small way, the Libertarian Party is helping Americans understand that they can have freedom if they will pay the modest price of giving it to others. ◻

David Bergland, an Orange County, California, attorney, is the 1984 presidential candidate of the Libertarian Party.

Another Chance for Reaganomics!

A noted supply-sider diagnoses the problems with Reaganomics and writes a prescription for a second Reagan term.

By Alan Reynolds

Ronald Reagan came into office in 1980 with a set of economic ideas so seemingly foreign to the postwar consensus that his name was attached to it. "Reaganomics" promised to bring down inflation *and* unemployment and balance the government's books to boot. As a second Reagan administration looms on the horizon, it is useful to review the flow of economic policies in the first four years to see what went wrong in 1981-82 and what went right in 1983-84. History does not have to repeat itself.

There were always two sides to Reaganomics—a supply side and a demand side. The demand-siders were assigned the task of gradually slowing the growth rate of spending, or nominal GNP (gross national product), by slowing the growth of the money supply. This was the monetary program of Reaganomics. The supply-siders had the job of increasing the growth of production, *real* GNP, by reducing marginal tax rates and regulations. This was the fiscal program. I was briefly involved in both sides, as a member of Reagan's Inflation Task Force in 1980 and with the Office of Management and Budget (OMB) transition team in early 1981.

This division of fiscal and monetary responsibilities quickly began to strain an uneasy truce between supply-siders and what can be called "the austerity school of demand management." On the monetary front, the supply-side prescription was countered by Beryl Sprinkel and other "monetarists," with their emphasis on the quantity of money. They repeatedly goaded the Federal Reserve to ignore falling commodity prices, the soaring dollar, and interest rates and stomp out even brief bulges in the money supply. On the fiscal front, conservative Keynesians—like Alan Greenspan, Charls Walker, and Herb Stein—successfully argued for diluting and postponing real reductions in personal tax rates.

But as supply-side economist Paul Craig Roberts had warned in a *Wall Street Journal* article in August 1980, "The promise of lower tax rates *in the future* would cause GNP and tax revenues to be lower in the present." In another *Journal* article on the eve of the recession, July 1981, I had added, "The dilution of [Reagan's] tax program jeopardized economic expansion."

Why was the issue of tax cuts so vital? President Carter's inflation had increased federal taxes from 18.2 percent of GNP in 1976 to 20.6 percent in 1980. His 1981 budget proposed to hike taxes further, to 23.6 percent of GNP by 1985—yet nonetheless expected real GNP to rise by 5 percent a year from 1982 to 1985.

It seems almost entirely forgotten by now, but when the Reagan team surveyed the economic problems they had been handed by the Carter administration, they were not optimistic about

how quickly things could be turned around. The administration's 1981 "rosy scenario" actually forecast a *recession* in that year, a weak 5.2 percent recovery in 1982, and about 4 percent growth thereafter. These were remarkably modest objectives that required only two things, which did *not* happen—stick to the original schedule of cutting personal tax rates by 10 percent in both 1981 and 1982, and pursue a reasonably gradual tightening of the money supply.

There was a fork in the road, and taking the wrong turn made a great difference to the actual results. Had we stayed on the original path, the 1983 recovery surely would have occurred in 1982. And that projected 1982 recovery, in the OMB's estimation, would have produced a budget surplus in fiscal 1985. In other words, the failure to permit recovery in 1982 accounts for the *entire* estimated 1985 deficit, now pegged at $172 billion. (Separate studies by Robert Barro and Brian Horrigan similarly find that a deficit of around $160 billion can be completely explained as a hangover from inflation and below-normal real growth.)

Federal tax rates were finally reduced, of course. To evaluate the impact, it is obviously essential to know *when* they were reduced. Officially, the first cut went into effect in late 1981. But as the table above shows, average tax rates *increased* in 1981. Even in 1982, personal tax rates (income plus Social Security) were still higher than in 1980—inflation had continued to push people into higher tax brackets, and the Social Security tax was increased. It was only in the calendar year beginning January 1983—also the start of the recovery—that personal and overall taxes were finally reduced to the 1970s average.

It is often claimed that the "Laffer Curve" can be laid to rest now. Didn't that symbol of supply-side economics say that if taxes were cut, people would work more and tax revenues would go up? Well, tax rates were cut, but the deficit has ballooned. But the Laffer Curve never promised that such a modest tax-rate cut as Reagan's would *instantly* raise taxable income enough to offset any revenue loss. The OMB and the Congressional Budget Office (CBO) produce estimates of the revenues "lost" by the tax cut. But their static estimates are simply wrong—they still assume that much higher tax rates would have had no adverse effects.

Even the Urban Institute is complaining that federal spending rose "as a percentage of GNP" from 1980 to 1982. But that was not because President Reagan and David Stockman were big spenders; it was because private GNP *fell* in 1981-82. In the fourth quarter of 1980, the last under the Carter administration, federal spending was up 18.6 percent from a year before; by the fourth quarter of 1983, that annual increase had been trimmed to 3.2 percent.

In the first 10 months of fiscal 1984, tax revenues were rising at an 11.5 percent pace, while government spending was rising by 5.2 percent. Revenues that rise twice as fast as outlays will obviously narrow the budget gap if economic growth is permitted to continue. The complicating factor is that interest payments are up about 20 percent, courtesy of the Federal Reserve's hiking interest rates by 20 percent. Other federal spending is up only *2.5 percent*, a decrease in real (after-inflation) terms, while real tax revenues are rising by 7-8 percent. In 1980, by contrast, real federal revenues *fell* by 1 percent while *real* noninterest outlays rose by 3.6 percent. Compared with Carter-Mondale "bracket creep," the Laffer Curve is doing very well.

When Taxes Were Truly Trimmed

AVERAGE FEDERAL TAX RATES

	1970s	1980	1981	1982	1983	1984*
Personal Income	*12.8%*	*14.1%*	*14.5%*	*14.1%*	*12.9%*	*12.4%*
Social Security	*11.5*	*12.8*	*13.7*	*13.7*	*14.1*	*14.6*
Corporate	*39.3*	*40.1*	*34.6*	*29.3*	*26.6*	*26.7*
Total Revenue's % of GNP	*19.4*	*20.6*	*21.1*	*20.1*	*19.4*	*19.3*

*Estimated SOURCE: Congressional Budget Office

What fueled the recession in 1981-82? Not supply-side tax cuts. Average federal tax rates show that it wasn't until *1983* that personal and overall taxes were actually reduced to the average of the 1970s.

Postponing

effective tax cuts until 1983 was merely a disaster. The monetarist version of demand-side Reaganomics turned out to be much worse.

The monetarist goal laid out in the 1981 Agenda was to go for 7.5 percent annual growth of the "M1" money supply in 1981-82. The Fed came fairly close, delivering 6.9 percent. Despite later complaints about monthly wiggles in M1, administration monetarists really got what they asked for when they asked for it. Treasury Undersecretary Beryl Sprinkel publicly complained about supposedly excessive M1 growth on May 4, 1981, and January 22, 1982. The Fed responded by tightening the cost and availability of bank reserves at their meetings of May 18 and February 1. That kept the critical "fed funds" rate at 14-19 percent from May 1981 through July 1982 and correspondingly pushed up interest rates.

Proponents of postponed tax relief and what was, under the circumstances, excessively tight money argued that the combination would gradually slow the annual growth rate of nominal GNP to something like 10 percent. Instead, it abruptly squelched nominal GNP to a meager *2.8 percent* rise between the third quarter of 1981 and the end of 1982, though M1 was rising at a 7.4 percent annual rate. This was not supposed to happen within the monetarist framework, but it did.

Jude Wanniski converted Herb Stein's 1976 phrase "supply-side fiscalism" into "supply-side *economics*" precisely to emphasize that supply-side is not concerned only with the effects of taxes but has a monetary side as well. But supply-siders within the Reagan administration were either disinterested in money or were deferring to the monetarists. Manuel Johnson at Treasury wrote in 1982: "Gold standard supply-siders see a major conflict between their views and those held by monetarists. . . . But this position falls outside the mainstream of economic thought and is not shared by supply-siders holding policy-making positions in the government."

One of them was Paul Craig Roberts, assistant Treasury secretary for economic policy. He sensed that something was going wrong, asking "Is a Depression Brewing?" in the *Wall Street Journal* in March 1982. But he still focused narrowly on the domestic money supply, oblivious to a rising world demand for US money. Roberts wondered "why the administration has closed ranks behind the Fed" and its tight-money policy, but

he seemed unaware that his own support for Milton Friedman's monetarism had left the administration with no alternative.

People around the world really *did* believe that this administration would drive inflation down, and that belief made it safer to accumulate dollars. Indeed, the value of the dollar compared to other currencies had risen and commodity prices fallen from the moment of Reagan's election.

The Fed could not literally "control" the M1 money stock. All it could do was react to an observed spurt in currency and bank deposits by raising the interest rate on bank reserves. But this bouncing the fed funds rate up and down to chase M1 often made cash more attractive than bonds, and this created new risks for long-term investments because of sudden swings in bond prices. Paul Evans of Stanford University estimates that this instability alone raised long-term interest rates even more and reduced real GNP "by about 1 percent in 1980 and by about 2.5 percent in 1981 and 1982."

The supply-side criticism of 1982 Federal Reserve overkill is not mere hindsight. Jude Wanniski, writing in the *New York Times* in June 1981, warned of the burden of monetarism on the Reagan strategy. "Inflation is to be whipped with a world-wide going-out-of-business sale," he wrote. "Austerity is just around the corner for the GOP." The next month, economist Gene Birnbaum observed in the *Wall Street Journal* that a two-month bulge in M1 had prompted the Fed to raise "the fed funds rate back toward the 19%-plus area." Birnbaum rightly worried that "a combination of such exceptionally high real interest rates and a strong dollar...may ultimately crush the economy."

Likewise economist Robert Mundell, at an April 1981 conference in Italy, worried that "the United States will clamp down...in a squeeze that ends in widespread bankruptcy." He proposed to instead stabilize the dollar value of international gold reserves by easing Fed policy if the price of gold slipped below $400 and tightening around $450.

In June 1982, I surveyed the monetary wreckage in the *Wall Street Journal*: "A large and vital segment of the dollar economy, worldwide, is suffering severe deflation. Prices of industrial commodities have fallen every month since August, at nearly a 25% annual rate. Those who turn out primary products see their selling prices go down while interest rates stay up. That cost-price squeeze requires more borrowing to pay the bills, but the rising real burden of the debt leads to layoffs, plant closings and bankruptcies."

A month later, in the same *Journal*, monetarist Allan Meltzer showed that the faithful had not wavered. "If the Federal Reserve returns to high money growth, long-term interest rates will rise." But the Fed could no longer afford to listen to that paralyzing theory. Instead, finally ignoring M1, it began to meet the soaring global demand for dollars. And, contrary to the monetarist expectation, long-term interest rates fell like a stone.

The years 1981 and 1982 provided no test of either the tax or the monetary proposals of supply-side economists. Tax rates were not reduced in those years but were instead increased. Commodity prices and exchange rates were not stabilized but were instead destabilized.

What we experienced in 1981-82 was instead a massive failure of demand-side economics—a failure so glaring that the supply-side challenge became an unbearable embarrassment. Budget deficits were supposed to be inflationary, yet prices fell. The modest slowdown in the money supply was supposed to generate an equally modest slowdown in "aggregate demand," yet GNP collapsed.

The supply-siders, who had warned about all this from June '81 to June '82, were continually dismissed as too gloomy. In October 1982, when Polyconomics predicted that a normal 6-7 percent recovery would begin in the first quarter of 1983, the supply-siders were then dismissed as wildly optimistic. On January 4, 1984, in the *Wall Street Journal* editorial "Voodoo's Revenge," we made another controversial forecast of noninflationary 6.5 percent real growth—a forecast that finally became the "consensus" view seven months later. The demand-side fiscalists were again surprised, first expecting "crowding out" and stagflation by mid-1984, then adroitly explaining that it was the deficits that had, à la Keynes, "stimulated" the real economy.

Although the record was by this time clear on who had forecast what, supply-side adversaries were struggling to withhold credit and shift blame. Tom Redburn of *The Los Angeles Times* wrote at the beginning of 1984 that "until recently, supply-side boosters mostly had been licking their wounds, arguing among themselves over why the economic boom they had forecast had failed to materialize." Yet *no* supply-sider had forecast a "boom" from the tax increases and absurdly tight money of 1981-82. Supply-siders, in fact, were the only ones warning of the consequences.

Economist Morgan Reynolds of Texas A&M wrote that "the supply-siders' inattention to monetary theory has damaged their political influence, since their predictions have been falsified by events." Yet consider the predictions of that prominent monetarist Milton Friedman. In a letter to the *Wall Street Journal* in June 1982, Friedman worried that money growth was "dangerously high." Six weeks later, in his *Newsweek* column, the 1982 recovery that he had predicted had been "aborted by a drastic cut in money growth." In an October 25 interview with *Barron's*, that drastic cut had become an inflationary "monetary explosion." A year later, in September '83, Friedman wrote in the *Wall Street Journal* under the headline "Why a Surge of Inflation Is Likely Next Year." That was quickly followed by "A Recession Warning" in a *Newsweek* column in January '84. But within three months Friedman was back to telling the *New York Times* that "we shall be fortunate indeed if prices are not rising in the 7-10 percent range by the fourth quarter of the year." Professor Friedman's single-variable money-supply model was obviously unable to cope with the unfolding economy.

In 1983, both Keynesians and monetarists scrambled to take credit for a noninflationary investment boom that they did not predict and that was based on policies they emphatically repudiated. Journalists began the amusing sport of blaming the recession on tax cuts and giving the Fed full credit for recovery. The Federal Reserve estimated that US industrial capacity was rising by less in the recovery than it had in the recession and then proceeded to worry that we were running out of capacity by producing so many machines. In a mid-1984 MacNeil-Lehrer debate with supply-sider Jack Kemp, Keynesian Charles Schultze saw "absolutely no evidence" that all this investment had added any capacity.

The demand-side economists tried to explain the US recovery with one or another of their single-variable models—the budget deficit or money supply. But if real growth really depended on the supply of government IOUs, then the recovery would have been sooner and stronger in other countries. Belgium and Italy, for example, had budget deficits of 12-14 percent of GNP, but Italy's economy stagnated while Belgium had modest growth. In the first quarter of 1983, when the US recovery began, the M1 money supply was up 9 percent from a year earlier, compared with 9.9 percent in West Germany and 17.5 percent in Switzerland, yet real GNP stagnated in

Germany and Switzerland in 1983.

Keynesians shamelessly declared that this was their own, "consumer-led" recovery. In the *New York Times* in July 1984, Samuel Bowles claimed that "the big boost is from expanded...military spending." But the table below shows that the big boost was instead from business investment, housing, and consumer durables. Real government purchases actually fell, and true consumption (services and nondurables) was quite weak. Exports staged a good recovery, despite Third World poverty, and imports in 1983 were only 7.5 percent of GNP—down from 9.2 percent in the weak-dollar years of 1979-80. In the first half of 1984, business investment speeded up to a 20 percent rate of increase, and real GNP growth averaged a marvelous 8 percent between the second quarters of 1983 and 1984. Far from being an inflationary boom, as the monetarists predicted, or a Keynesian consumer boom, the Reagan expansion has been an investment boom of unprecedented proportions.

Behind the Reagan Recovery

CHANGES IN REAL OUTLAYS*

	1983 Recovery	Previous 3 Recoveries	All Postwar Recoveries
Business Fixed Investment	*14.2%*	*3.7%*	*7.8%*
Housing	*41.6*	*22.6*	*20.0*
Personal Consumption	*5.7*	*5.0*	*5.4*
Less Durables	*3.7*	*NA*	*NA*
Exports	*3.1*	*-0.2*	*3.7*
Government Purchases	*-4.1*	*0.3*	*2.1*

*Percent change over four quarters of first year of recovery
SOURCES: Department of Commerce, Federal Reserve Bank of St. Louis, IRET

What fueled the recovery in 1983? Not government spending or personal consumption. Changes in outlays in the first year of recoveries show that the Reagan expansion has been an unprecedented investment boom.

How could investment flourish despite abundant unused capacity in 1983 and the Federal Reserve's outspoken efforts to slow the progress with interest rates that were four times the rate of inflation? The only coherent answer is that the after-tax reward for investing was so attractive that it justified borrowing at such high real interest rates. Accelerated depreciation and the investment tax credit are obvious reasons, but lower marginal tax rates on "personal" income also raised the net return on unincorporated business and on individuals' dividends and capital gains. Clearly, reduced marginal tax rates on capital *did* induce more investment, and reduced tax rates on labor were favorable to both investment and employment.

Labor productivity, which had risen by 0.6 percent a year for nine years, now rose at a 3.3 percent annual rate from mid-1982 to mid-1984. And this was no Thatcherite trick of raising productivity by keeping output unchanged and firing workers. The combination of employment growth *and* productivity growth was without precedent. Wage gains remained surprisingly moderate, unit labor costs fell, and real wages rose.

As Leonard Silk

of the *New York Times* has correctly reported, supply-side economics goes back to at least 1971, when Robert Mundell of Columbia University advocated reducing marginal tax rates to encourage added production, while stopping inflation by stabilizing the value of the dollar in terms of gold. This "Mundell mix" was offered as an alternative to President Ford's surcharge plan in Jude Wanniski's seminal article "It's Time to Cut Taxes" in the *Wall Street Journal* of December 11, 1974.

Wanniski reported that Mundell "would adjust income tax brackets across the board and index them....If taxes are not cut now, the size of the unemployed sub-economy will expand. Tax revenues of state, local and federal governments will decline. At the same time their outlays for unemployment relief and welfare will expand. Combined government deficits might even exceed the amount implied by a tax cut.... With lower taxes, it is more attractive to invest and more attractive to work; demand is increased but so is supply."

"The dollar would appreciate against foreign currencies," Wanniski continued; and "dollar holders will have a higher incentive to invest in capital goods....Capital that is now flowing out will remain; foreign capital going elsewhere would come in. The increased real economic growth would mean the U.S. would run a sizable trade deficit....The expectation of slower inflation would cause a reduction in optimal inventory levels." *Nine years before his policies were tried, Mundell had accurately predicted their effects.*

Those who were surprised by the outcome of Mundell's advice have attempted to deny that the US economy in 1983-84 has, in fact, performed better than it had in decades. For example, in the *New York Times* in January 1984, socialist Michael Harrington wrote: "The Reagan supply-side strategy failed: Production did not turn upward, because the rich and the corporations did not invest the enormous tax subsidies."

An equal reduction in tax rates is considered "unfair," in this view, because low-income individuals who pay no taxes receive no *direct* benefit from a tax cut. What was actually unfair was that the 50-percent maximum tax has not yet been reduced at all. The top 1 percent of all taxpayers paid 7.5 percent of all the income taxes collected in 1978, 8.5 percent in 1980, and 9 percent in 1982. The recession did, of course, cause a certain amount of poverty; but a study by Richard Nathan of Princeton found that the 1981 budget cuts had "much less of an impact on [government] services than people believed."

Supply-siders

have grown accustomed to being criticized for positions they never held and predictions they never made. Economist Barry Bosworth recently managed to write a whole book about supply-side economics without quoting a single supply-sider, offering only a footnote for one supply-side fiscalist (Norman Ture, who joined the Treasury Department in 1981).

Bosworth leans rather heavily on an old fallacy, claiming that the "income effect" of tax cuts could be a *dis*incentive to produce. That is, people will be so much wealthier because of a tax cut that they may work and invest less than

before. Of course, if everyone produces less they will soon be poorer, not richer; and being poorer, on Bosworth's theory, should make them work harder. Poverty is what creates wealth in the Bosworth model. Yet the theory of tax incentives is not really ambiguous or paradoxical, as has been rigorously explained by James Gwartney and other supply-siders whom Bosworth chooses to ignore.

It is particularly ironic that supply-side is so often judged, by Bosworth and others, according to the so-called personal savings rate. The savings rate is the Keynesian "marginal propensity to save," relabeled as supply-side by such zero-sum theorists as Martin Feldstein and Lester Thurow. "Real supply-side economics," claimed Thurow in the *Chicago Tribune* in May 1983, "would require Americans to endure a 5-to-10 year period during which consumption and the standard of living must fall in order to make room for investment."

In genuine supply-side analysis, people produce in order to consume or to acquire assets that will let them consume later. A tax system should not be biased against either present or future consumption, since both are incentives to produce. By improving incentives and dynamic efficiency in the economy, supply-side economics intends to raise the quantity and quality of goods and services over time, or "potential GNP." In that case, both savings *and* consumption would rise.

The "personal savings rate," or percentage of current personal income that is not consumed, would be a particularly perverse supply-side target. It could probably be raised, for example, by reducing personal income with a big tax increase. In the taxflation of 1974, the savings rate soared to 8.5 percent, as income and wealth contracted; yet the real value of current and past savings nonetheless fell.

Within these Keynesian accounting categories, however, even *personal* savings are understated because purchases of consumer durables are considered consumption instead of saving, and government employees' payments for life insurance and retirement funds are tallied as taxes instead of saving. These are more appropriately accounted for in the Federal Reserve's flow-of-funds measurement of "personal" savings, which showed the savings rate to be 11.1 percent in the first quarter of 1984 (versus 6.1 percent as calculated by the Commerce Department).

Savings is an increase in wealth, and the booming stock and bond markets of 1982-83 raised real wealth by at least a trillion dollars. Paper claims against future production became more valuable with expanded opportunities for profitable production. The enormous increase in reinvested corporate profits should also be considered "personal" savings—people own the corporations. Combined corporate and personal savings (even without the Federal Reserve adjustments) rose by 22 percent in the first five quarters of the recovery, going from 16.9 to 18.1 percent of GNP. At the same time, combined government deficits fell from 33 to 17 percent of private savings.

Criticism of supply-side policies from conservative and libertarian scholars does not recognize that the supply-side economic expansion has also contributed to their own agenda—negligible inflation and reduced growth of government spending. Murray Rothbard would have people believe that "supply-siders care not at all for the deficit or for the level of government spending." Thomas Hazlett wrote in 1982 that "the Soviet Union is the quintessential supply-side economy," and "implicit in all supply-side prescriptions is a positive view of government spending." Leland Yeager in 1984 decries "today's tacit alliance between big spenders and supply-side inflationists." "We who are more libertarian," he suggests, should "ponder the idea of strictly temporary tax increases." He accuses supply-siders of having "caricatured monetarism unfairly," although he wrote in 1983 that "Reynolds is right in asking us to look beyond monetarist prescriptions."

Supply-side advocates of a commodity standard or stable exchange rates are not "inflationists" because they complain about falling commodity prices or an ever-rising dollar. We would be inflationists only if we did not also advocate monetary tightening whenever the dollar collapsed and the price of gold soared.

Yeager believes it is "grossly irresponsible" for supply-siders to question the mismeasurement of deficits or to ask for evidence that deficits necessarily raise either interest rates or inflation. The burden of proof, however, is on the other side. An exhaustive survey of two dozen studies trying to link budget deficits and interest rates, in the CBO's February 1984 *Economic Outlook*, found no credible evidence of any significant effect. It is not that deficits "don't matter" but that deficits of the magnitude recently experienced are less damaging than trying to squeeze equivalent tax revenues out of one year's output.

Any ill-effects from government (or private) borrowing depend on the methods of finance and the specific alternatives being proposed. Government spending *is* the average burden of government, but the *marginal* burden on new production depends on specific timing and methods of taxation. The reason for cutting federal spending is also the reason for cutting marginal tax rates—both changes free up resources for uses that people acting in the market prefer, and both improve incentives for production and exchange. A deficit does imply that tax *revenues* must be higher in the future to service the added debt, but a larger economy can generate that added revenue at lower tax *rates.*

The solution

to deficits offered by Walter Mondale is simply a replay of 1978-80, with a similar cast of advisors. He wants to repeal tax indexing and sink the dollar's value by 30 percent, so that working couples can be inflated into higher tax brackets. This Mondale "policy mix," advocated by Barry Bosworth and others, is the exact opposite of the "Mundell mix" of stable money and low marginal tax rates. The effects are also the exact opposite—Mondale's proposals would ensure chronic stagflation.

The supply-side of Reaganomics has been so successful in revitalizing the economy that the demand-siders have repeatedly urged higher tax rates and higher interest rates to slow the allegedly "overheated" recovery. It must always be remembered that such advice comes from the same economists who were responsible for the policies of 1968-82. Monetarism, in particular, is the main casualty of 1981-82 and must be fundamentally reconsidered.

The experience of 1983-84 shows what invigorated enterprise can accomplish with modest encouragement. A second Reagan administration should press forward with lower marginal tax rates on a broad and growing tax base, further liberalization of trade and regulations, and a long-term guarantee of the dollar's value in gold. Of course, the trial-and-error process of economic policy in the first term was based on a conflict of ideas, and some of that controversy will continue into a second. But if it is to succeed in maintaining vigorous economic growth without inflation and without budget deficits by 1989, the administration will have to grope its way back to the original path—the fork in the road not taken in 1981. ◻

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Election ISSUE

HILL BENT ON SPENDING

Do you want the bloated deficit controlled? Look to the members of Congress perched on Capitol Hill, says the Grace Commission report.

By Peter Samuel

Come November 6, all 435 members of the House of Representatives and a third of the Senate, 34 members, are up for election. Who wins these contests could be far more important than who becomes our next president.

As 1985 approaches, taxpayers face the prospect of a $200-billion federal deficit. Walter Mondale blames President Reagan. Congress blames President Reagan. But it was Congress that accepted only *half* of Reagan's proposed budget cuts for 1983 and *none* for 1984.

It is Congress that sits athwart most government spending cuts. This may, ironically, be the biggest lesson to be learned from the recent exercise in ferreting out waste in the federal budget known as the Grace Commission. It is ironic because when President Reagan asked industrialist J. Peter Grace to head up a team of volunteers from business to probe the government's operations for potential savings, he was asking for an investigation of the executive branch.

The Grace Commission proceeded to do its work, amassing 46 volumes' worth of examples of waste and inefficiency that add up, roughly, to $140 billion a year. This was the subject of an earlier article in REASON, "Battling the Budget Bulge—Gracefully" (May 1983). But as I noted at the end of that article, at least 60 percent (and probably more like 70 percent) of the commission's 2,478 recommendations require congressional approval in order to be implemented. So the likelihood of budget cutting à la Grace, I suggested, makes for a story in itself. A worthy focus of attention is the final report of the Grace Commission, *The Cost of Congressional Encroachment.*

The commission itself had noticed during its investigation that a very large proportion of government spending turns out to be a result of congressional pressures and legislative mandates that often run directly counter to the best judgment of officials in the executive agencies. Confronted with so much congressional involvement in the management of government operations, Grace's waste-watchers took on this specific problem in a special report.

Consider, as an item, long-standing efforts by the Defense Department to close unneeded military bases. Utah's Fort Douglas, built in 1862 to protect the historic stage route to the West, is an unlikely target of military operations against the United States. Yet it still receives federal funding as a military base. Across the continent, in Virginia, sits Fort Monroe—probably the only active army post in the world equipped with a medieval eight-foot-deep moat around it. Both of these military anomalies have withstood repeated efforts by the Defense Department over the past two decades to close them and transform them into museums. Why? Congress.

Congress may have every constitutional right to so "encroach" on the executive's management decisions, noted the Grace Commission. But that exercise of power is costing taxpayers a bundle. In the case of Forts Douglas and Monroe alone, $10.8 million a year could be saved by shutting down these military anachronisms—a recommended savings that Congress refuses to allow.

Critics often chide President Reagan for citing the Grace Commission's billions when confronted with questions about the deficit. He is smugly lambasted because so many of the opportunities for budget cutting are not in his province, depending as they do on congressional action. The telling point missed by these critics is precisely the extent to which Congress *is* the problem behind the deficit.

So the $3-billion annual price tag tallied up in *The Cost of Congressional Encroachment* should be seen as the tip of an iceberg. The commission noted that the examples of waste catalogued in the report did not exhaust all the overspending generated by legislative involvement in executive details. Moreover, meddling in management is but one facet of Congress's large role in federal spending.

Why the congressional impulse to spend? While the Grace report on Congress did not ponder this question, a perusal of its many examples of encroachment shows that they typify three forces that lie behind Congress's contribution to the ever-growing deficit. First, parochial concerns often obscure any national perspective that might enhance efficiency and promote belt-tightening. (And so we have, for example, a military base in every state of the union and in nearly 60 percent of all congressional districts.) Second, legislators have established a symbiotic relationship with career civil servants that thwarts budget cutting. And third, legislators are subject to great pressure from special-interest groups.

We all know that politicians dispense favors. The practitioners of politics are essentially redistributors—since they do not produce, they can only redistribute. What they give to you, they take from your neighbor. This is familiar enough as a matter of theory, but the Grace Commission's *Encroachment* report is valuable in turning up many earthy examples of real-life representatives doling out taxpayers' dollars.

Unfortunately, this value is blunted in the original report because the commission declined to identify the particular members of Congress and individual projects involved. In the words of Peter Grace, the elected officials who are so big on ways to spend the taxpayers' money are only "the innocent tools of a failed culture." Grace would excuse the individuals because the political system in which they operate encourages them to put narrow interests ahead of the public's at large. By talking to insiders, however (especially Randy Fitzgerald, a

Illustration by Peter Green

consultant to the Grace Commission), I have been able to identify here specific projects and individuals that point to Congress as a major culprit in the ballooning deficits over which those same members of Congress proceed to wring their hands.

Logrolling for Dollars

The constant tension between managerial efficiency and parochial congressional interests is well exemplified in federal water policy. When the Carter administration announced a nationwide plan to reduce the costs of federal water projects in 1978, Congress rushed in with vigor to protect local interests.

Within one day of Carter's proposal to reevaluate the merits of the nation's water projects, the Grace Commission noted, Congress launched a battle to protect its turf. Carter formally asked Congress to delete 18 projects from the 1978 Public Works Appropriations Bill, to provide savings of $177 million for that year. But the House Public Works Appropriations Subcommittee ultimately agreed to only one deletion, with a budgetary saving of $1 million for the year.

Although Carter's proposed cuts accounted for a mere 1.7 percent of the total proposed expenditures included in the Public Works Appropriations Bill, hearings on the bill focused overwhelmingly on the water projects. The total bill carried a $10.2-billion price tag. It included expenditures on energy research and development (including nuclear research and reactor technology development), nuclear-powered naval vessels, uranium-enrichment activities, and the neutron bomb.

Despite the size, scope, and controversial nature of some of these other expenditures, of the 413 witnesses who appeared before the subcommittee to testify on the bill, 333 were present to get in their two cents' worth on the water projects. Of these, 107 were members of the House of Representatives, amounting to a quarter of that legislative body. Nearly three-quarters of the 74 pages in the *Congressional Record* devoted to discussion of the appropriations bill focused on the water projects being considered for deletion.

The upshot of this concerted congressional opposition was that President Carter was finally forced to accept only $60 million in cuts (9 of the 18 projects), barely a third of the value of those originally proposed for deletion. Even so, the battle wasn't over. The following spring the Public Works Subcommittee restored 8 of the 9 deleted projects following successful lobbying by representatives in the affected constituencies. Carter vetoed the bill but was overridden by Congress.

Of the water projects the Carter administration originally wanted to drop, the Grace Commission reported that three have been completed, another two are nearing completion, and design work proceeds on four. Of those completed or under way, the construction cost has risen from $448 million to $738 million—or, adjusted for inflation, by 13.6 percent.

One dam that failed all cost-benefit tests, the Yatesville Dam, was kept alive by the late Rep. Carl Perkins of Kentucky. Costs rose from $54 million when first proposed in 1977 to $97 million in 1983, or an increase after inflation of 14.9 percent. In case any president might be tempted not to build Perkins's dam, the representative from Kentucky managed to insert in a 1983 supplemental appropriations bill the following: "Hereafter, notwithstanding any other provisions of this Act, appropriations for the Yatesville Lake construction project made available by Public Law 97-257...and Public Law 97-377...shall be obligated to build the Yatesville Lake Project."

This water-project scenario is by no means an isolated case, as the issue of military bases shows. The Grace Commission made what it called a "conservative estimate" of $2 billion as the annual savings to be gained from military-base closings favored by the Defense Department but continually thwarted by Congress. In 1977 the Department of Defense actually slated 17 bases for closure, but as of now Congress has stopped all but three from being shut down.

The saga of the moated Fort Monroe in Virginia has an especially nice twist to it. Congress has persistently stalled on closure of the fort by demanding a series of "impact statements"—first an enrivonmental impact statement, then a socioeconomic impact statement. Maybe the next one to be requested will be a "historic heritage impact statement"?

At one point, the fort was declared a historic monument and was to be opened to the public. But safety regulations require that before this can be done, a complete search be conducted for any buried unexploded munitions.

Such a search, of course, costs money itself. Estimates ranged from the DOD's low of $2.5 million up to a congressional estimate of $32.3 million. The congressional estimate, considered dubious by DOD personnel, finally prevailed. Using this figure, the Army had to agree that satisfying the safety regulation would

cost more than it would just to keep the base in operation. (Apparently it is all right for soldiers to work in an area of possible unexploded munitions!) The latest news is that instead of closing Fort Monroe, taxpayers are being socked for new construction expenditures there to the tune of $550,000.

Parochial Profligates

Nor are military bases the only institutions that defy streamlining given a pork-barrel modus operandi. There are 238 subsidized grocery stores in this country, costing the taxpayers some $758 million annually. True, they are connected to military bases, but the expense of these "commissaries" has been regularly criticized by the federal government's "watchdog," the General Accounting Office (GAO). And by now the story's ending is known—tenacious members of Congress have saved them.

The commissaries are a case study in the gradual perversion of the original justifications for a government policy. They were started in the early 19th century to provide goods to garrison troops in places remote from stores. Their object was to charge the prices that would normally prevail in a soldier's home town. Somewhere along the line, the requirement of remoteness was dropped, along with the concept of prices equivalent to home-town prices. Today, prices are quite low, courtesy of a taxpayer subsidy—the services use base funds to build the commissaries, buy their initial stocks, and pay the salaries of the stores' staffs.

The unnecessary nature of these commissaries except as a special perk is exemplified by those in the Washington, D.C., area. Seven commissaries serve the area, though within a three-mile radius of six of these commissaries, there are 88 commercial grocery stores or supermarkets. The commissary of the Bolling Air Force Base in Maryland bragged in the base newspaper that its prices were "25 to 34 percent below" normal prices. The same newspaper announced it had received a "$450,000 enhancement" (that is, taxpayers' money) that had allowed it to expand its deli and bakery and add a health-food bar. Yet there are plenty of nonsubsidized grocery stores and supermarkets in the area.

The General Accounting Office has called for the closure of all commissaries in urban areas, and the Defense Department does not actively defend them. Congressional action has kept them alive and well, in response to powerful interest-group support.

All the while, politicians have engaged in some real political entrepreneurship here. The political constituency for the subsidized outlets has been gradually expanded by extending the eligibility to use them from active service personnel to veterans, retired service people, and spouses and families of base employees. An estimated 40 million people are now eligible to use these state-owned, heavily subsidized Pentagon supermarkets! The latest move, with a bill introduced in the Senate in 1983, is to allow reservists to buy their food at these government stores, expanding their clientele by another million or so. And work is currently under way to build or renovate 25 commissaries.

Parochial congressional interests hinder executive streamlining endeavors outside the military, as well. After President Reagan fired striking air traffic controllers in 1981, new controllers had to be trained. The Federal Aviation Administration (FAA) said its existing Oklahoma training center could carry the extra load. But Sen. Mark Andrews (R-N.D.) saw a golden opportunity to bring some goodies to his district at the expense of the rest of US taxpayers. As the Grace report described it (having omitted the name of this "innocent tool of a failed culture"): "Language was inserted in the Transportation Department's 1982 money bill setting aside $4 million for construction at the University of North Dakota, in his home state, of an air traffic control (training) center, even though the FAA and Department of Transportation believed it could not be completed in time to be of any use in the aftermath of the strike. Even so the facility was built."

In another clear case of pork-barrel politics, New Hampshire Sen. Warren Rudman (R) intervened to demand continuation of a research project being conducted in his state. The Department of Health and Human Services (HHS), which had been funding the project, had decided to cancel it on the advice of a consultant, determining that the project had been overly ambitious and would not yield useful results. When officials refused to accede to Senator Rudman's request for more funds, he used his influence in the Senate Appropriations Subcommittee that covers HHS. He had them push for a law requiring the department to "continue funding for this research effort at an amount necessary to keep the project on schedule, but no less than $400,000."

On another front, repeated attempts to close low-priority offices of the government-owned and -operated weather service have been thwarted in Congress. A proposal by the National Oceanic and Atmospheric Administration to close 52 unnecessary offices was rejected by Congress in 1979, 1980, and 1982. In 1983, Congress turned thumbs down on a measure to save $3.8 million a year by closing 63 unnecessary offices, once more illustrating the stranglehold of parochial interests.

Behind-the-scenes research shows that one of the most tenacious fighters in this resistance to the closure of obsolete and unnecessary weather stations has been Rep. Virginia Smith (R-Neb.). In March 1982 Commerce Secretary Malcolm Baldrige made the case for mothballing 18 stations. Smith countered with a demand that appropriations designated for automation of some other local weather service operations be diverted to pay the salaries of staff at the 18 stations whose closure had been recommended. The Reagan administration, she complained, had a policy of "dehumanization"—a novel boo-word for automation.

The Civil Servant Connection

The battle between Representative Smith and Commerce Secretary Baldrige points to the second facet of the legislative process that contributes to the immortality of administrative units and projects. Though a president and his appointees in the executive branch may push for spending cuts and greater efficiency, career civil servants in the executive branch rarely concur. And these same civil servants, through effective lobbying and the nourishment of long-standing relationships with legislative subcommittees, have clout. Nominally under the authority of appointed executives, these civil servants, through their liaisons with Congress, are able to resist executive authority. Their resistance becomes understandably acute when their own jobs are at stake.

The Grace Commission tells of the case of the Customs Service, when regional consolidation was proposed by agency executives. Congress soon passed an act requiring that six months' written notice be given if agency officials wanted to consolidate or close any offices. This requirement thwarted the effort, since it provided just enough time for those affected to organize a good lobbying campaign against it.

Under the Carter administration, seven overseas US consulates were closed when the Department of State said the posts were unwarranted. Some legislators, apparently pressed by career foreign serv-

ice personnel, got the money restored in 1982 and the consulates reopened. The State Department figured that this cost the taxpayers $1 million—not counting the annual costs of operating the reopened posts.

Legislators sometimes override attempts by agencies to economize on staff by demanding that plans for retrenchment or reorganization be submitted to congressional subcommittees for review. Or they simply instruct agencies to maintain a certain staff level. For example, Rep. Gerry Studds of Massachusetts (D) succeeded in inserting language in the Coast Guard's 1982 authorization bill requiring the agency to maintain "at least 5,484 civilian employees" through 1983 and 1984. Presumably some constituents who had faced dismissal became politically indebted to Studds for his efforts in their behalf. Perhaps more significant, the congressman from Massachusetts could now tell local voters that he had saved *x* number of jobs in their locale.

In some cases, the liaison between Congress and career civil servants has led to congressional involvement in minute details of executive-branch management. The Government Printing Office (GPO) offers a case study. A Joint Committee on Printing (JCP), whose function is to oversee the Government Printing Office, consists of five representatives and five senators. Notes the Grace Commission's *Report on Congressional Encroachment*: "JCP has given itself veto authority over all editorial, marketing and pricing decisions of the agencies that involve printing."

The JCP overseers are consulted about equipment, size and quality of paper, design and format of publications, colors used, the appearance of all new government letterheads, manning, pay scales, virtually every aspect of operations. It is what the Grace Commission calls "micromanagement." In 1981, Danforth Sawyer, President Reagan's appointed chief of the GPO, wanted to close 23 of the GPO's bookstores, which together were losing $10 million a year. GPO employees promptly protested, and Sen. Charles Mathias (R-Md.) and Rep. Augustus Hawkins (D-Calif.) managed to get the JCP to rule out any "change in the status" of the bookstores. So the proposed economies went by the board.

The unions representing GPO staff persuaded the JCP to give them massive pay raises in the years 1970 to 1975. They got raises amounting to 65 percent over five years, compared to 30 percent for federal employees as a whole. Currently, GPO chief Sawyer estimates that GPO printers get $4 an hour above market wage rates.

It is not surprising, then, the General Accounting Office has found that government agency printing costs 16 times as much as getting the same work in the private sector. The GAO also found wide and unexplained variations in costs between different federal agency printing establishments—of which there are, in total, 300!

Under the Iron Triangle

A third factor contributes to Congress's spending habits. Local congressional considerations and the vested interests of civil servants often combine with the designs of powerful interest groups to prevent budget cuts. "Iron triangles" of congressional subcommittees, executive agency officials, and interest groups have continuously worked to keep federal budgets swollen.

Mining interests illustrate the problem. The National Defense Stockpile of strategic metals is supposed to be managed according to some assessment of the country's defense needs, but legislators pitch in to assert constituent interests. For example, Sen. James McClure (R) of Idaho, a silver-mining state, in 1981 managed to attach a rider to a defense bill preventing the government from selling any silver from the stockpile (which sale would presumably lower the market price of silver and make mining less profitable). The Congressional Budget Office estimated that the sale of surplus silver could bring in $1.04 billion but noted the fierce opposition that such sales would invite from mining interests.

Putting pressure from another direction, representatives of copper-mining states have introduced bills designed to force the government to buy 200,000 short tons of copper (worth $300 million) for the stockpile. The agency responsible for the stockpile objected that this proposal violates the letter of the Stock Piling Act, which specifically prohibits the use of the stockpiles to subsidize the producing industry.

An iron-triangle relationship has been equally zealous in protecting cotton harvesters. Rep. Jamie Whitten (D-Miss.) managed to add a $100-million subsidy for cotton harvesters to a 1983 supplemental appropriations bill. Whitten's status as long-time chairman of the Agricultural Appropriations Subcommittee makes him an obvious target of lobbying by cotton harvesters. That his state is one of the nation's important cotton producers gives Whitten a personal incentive to see that his subcommittee accommodates these lobbyists.

Champions of Waste

Occasionally, it is difficult to discern just what motivates legislators to rise to the defense of certain programs. In 1981 Sen. Robert Byrd (D-W.Va.), for example, saved Amtrak's passenger train service running three times a week between Washington, D.C., and Chicago. The train carries an average of only 142 riders at a cost to taxpayers of $6.7 million a year. Amtrak itself wanted to discontinue the service, because it was unattractive and grossly wasteful, the distance between Chicago and Washington, D.C., being much too long to attract anything other than tourist traffic.

But, the Grace report noted, the senator felt that "his constituents deserved the service provided by the train even though few of them apparently use it." Filled with such feelings, Byrd had an appropriations bill amended to read: "Notwithstanding any other provision of law, Amtrak shall provide through passenger rail service between Washington, D.C. and Chicago." Surely those 142 riders could not have cost Byrd reelection had he failed to preserve the train! Yet preserve the system he did—in the name of "deserving" constituents.

By any measure, the Washington-Chicago service would fail a cost-benefit analysis. But Congress requires no such analysis on a systematic basis.

Again and again, the Grace Commission found similar examples of spending generated by legislators protecting narrow interests. To onlookers, this spending might clearly seem to be nothing more than sheer waste, pure and simple.

So blatantly wasteful are many of the expenditures identified by the Grace Commission that some might think these costs are an awful mistake. Surely all we really need to do is expose them to public scrutiny in order for actions to be taken to eliminate them? In fact, every single example of "waste" that can be identified has a vested interest behind it, if not a number of interest groups, accounting for why the expenditure arose, why it was funded, and why it will be difficult to eliminate. Every piece of "waste" has its champions in the executive branch, the legislative branch, and outside government, as this brief accounting has suggested.

Nothing highlights this more clearly than congressional and interest-group response to the Grace Commission's findings. Typical was a lengthy critique by James Packard Love of the Center for

Study of Responsive Law, inserted into a February 1984 congressional hearing on the Grace Commission recommendations. Love complained that "the report goes beyond management concerns to address important policy issues." Calling the report "deceitful" in claiming that its recommendations zero in on waste and inefficiency, Love charged that many proposals in fact amount to cutbacks in essential public programs.

President Reagan, too, came in for criticism. In supporting the Grace Commission, charged Love, he had "forsaken his opportunity to use the Presidency as a bully pulpit to enlighten the public about our fiscal problems and encourage all Americans to make sacrifices toward a more just and open society. Instead, he has allowed himself to become the puppet of bullies, bent on enriching the rich, despoiling our health and environment, and further impoverishing our poor."

Some members of Congress were equally critical. Representing the Grace Commission at hearings before the House Budget Committee, J. P. Bolduc discussed several cost-cutting proposals for the food stamp and school lunch programs. The proposals, he explained, were not intended to eliminate benefits from needy individuals but would save the taxpayers money by eliminating fraud and duplication of benefits, updating benefit assessments with 1981 demographic statistics rather than the currently used 1971 figures, and doing away with the smallest denomination of food-stamp coupon.

Rep. Geraldine Ferraro (D-N.Y.), now the Democratic vice-presidential candidate, attacked the proposals ferociously, charging that "99.6 percent of the survey's recommendations for savings in the food stamp program would result in lower benefits to the recipients." Never mind that 1981 statistics are more relevant than 1971—"Utilizing your updating," claimed Ferraro, "you are actually cutting benefits to 96 percent of the recipients." Added Ferraro, "I feel very, very strongly about this."

The stridency of these remarks illustrates the extent to which the Grace Commission hit upon sensitive political concerns. The commission itself was not blind to the problems of trying to implement its recommendations. It recognized in its summary *Report to the President* that government is subject to three influences "promoting inefficiency." Namely, within government (1) cost-inefficient management tends to be rewarded with higher appropriations and more staff; (2) government is insulated from competitive pressures and therefore is able to avoid proposals for change; and (3) "powerful constituencies exist within and outside government that can and do lobby effectively to prevent change, while taxpayers, all 90 million of them, remain moot [*sic*]." (I suppose they meant "mute," but *impotent* would have been a better word).

So-called waste is integral to the process of government. It is there because the groups who want these expenditures are politically stronger than those who don't. And if waste is to be reduced, as much thought needs to be given to the political mechanics of cutting government as to the identification of where waste exists.

The Mechanics of Cutting

Those political mechanics involve the structure of the executive branch, as well as the process of legislative decisionmaking. Government agencies are naturally expansionist. Their middle management in particular tends to gain in prestige and pay in proportion to agency staff and expenditures, not performance, because performance is always so difficult to measure.

Executive branch expansionist tendencies are coupled with a legislative process that encourages logrolling and heightens the impact of parochial and special interests. Legislative riders, in which items are added to bills even though they have no direct bearing on the main theme of the measure, are commonplace. It was through just such a device that Rep. Carl Perkins, for example, managed to keep funding for the Yatesville Dam alive.

In addition to the problem of legislative riders, subcommittees divide up consideration of the budget according to specific areas of jurisdiction, and there is little weighing of priorities among different issues. And the subcommittee structure itself invites the establishment of "iron triangle" coalitions.

What is to be done? To that question, I only have the sketchiest of suggestions here.

One approach worth more serious efforts is coalition-building and counterlobbying by small-government, free-market groups. Fred Lee Smith, who made himself a national name last year in organizing the congressional coalition that defeated the Clinch River breeder reactor and nearly blocked extra funding of the International Monetary Fund (IMF), is the most active and articulate of these counterlobbyists. His recently formed Competitive Enterprise Institute in Washington, D.C., is a promising effort to roll back the logrollers.

Instituting a line-item veto power for the president might also reduce some of the atrocities against the public purse discussed in the *Report on Congressional Encroachment.* As it is now, the president must veto an entire bill or let the entire bill pass. For President Carter, for example, this would have meant nixing the entire $10.2-billion Public Works Appropriations Bill, with all its energy research and development expenditures, just to eliminate a handful of marginal water projects. However much free-market advocates might like to see the whole lot torpedoed, that is politically unrealistic. The line-item veto would at least afford the means of controlling limited budgetary areas.

A line-item veto power would, of course, be no utter panacea, since it would shift the venue of lobbying away from Capitol Hill to Pennsylvania Avenue. But there is some evidence that presidents can be more resistant to the logrollers because of their national, rather than local, constituencies.

The proposed balanced-budget and spending-growth amendments to the Constitution are other measures that may be helpful. Again, however, they will not provide a complete solution in themselves.

In the end, a more-aware public is a key to inhibiting politicians' favor-mongering. If members of Congress know they may pay a price next election, they will be more likely to curb their spending habits.

To this end, the work of J. Peter Grace and J. P. Bolduc, chief operating officer of the Grace Commission, goes on. A $5-million educational campaign has been launched, involving 500 public speakers, a TV documentary, videotapes, two books (*War on Waste* and *Burning Money*), and one-page flyers for insertion in employee pay and shareholder dividend envelopes.

They have also gotten the ball rolling at the grass roots with a new organization called Citizens Watch on Waste. Early activity, championed by syndicated columnist Jack Anderson, includes a nationwide drive to obtain taxpayers' signatures on an antispending petition.

But the ultimate sanction is for voters to stop electing representatives who dole out favors. "Nobody has ever been elected for saving the taxpayers money. It's just the opposite," notes Grace. And commissions and petitions can't change that. Only the voters can. ◻

Contributing editor Peter Samuel is a Washington-based journalist. Before he came to America, he was a recipient of the Adam Smith Prize in Australia for his reporting there.

The Choice We Don't Have

BY DOUG BANDOW

The American political system is bound up in a strange form of bipartisanship. Both major parties are supporting stronger government in all spheres. To be sure, there are differences of degree—the rate at which Ronald Reagan and Walter Mondale want to increase military spending and the extent to which they want to intervene in the economy. But they disagree little over the fundamental direction to take.

And yet, the choice between them is not meaningless. The Republican Party, or at least Ronald Reagan, pays lip service to the free market; in contrast, the Democrats openly pursue a goal of government economic planning. On foreign policy, Walter Mondale at least recognizes the danger of war in Central America. The Reagan administration, if anything, seems eager to deploy more troops overseas.

The candidates and parties diverge on other issues, as well—civil liberties, immigration, and the like—but the questions of a domestic free market and world peace will likely dominate this fall's election. And that's probably the way it should be, since the answers of the winner could very well chart our nation's course for the next generation.

Alas, the choice is not an easy one. Though on individual issues there are good people in each party, the overall package offered by both Democrats and Republicans is dismal. Bluntly put, the Republicans stand for a free-enterprise economy while preparing for war. The Democrats pledge to give us peace abroad but crypto-socialism at home.

Do we risk military conflict? Or accept the ruination of the economy?

If you're interested in your economic future, vote Republican. For one thing, Ronald Reagan has reduced the overall tax burden on Americans; had his 1981 tax cut not been enacted, Americans would be nearly one and one-half trillion dollars poorer between 1981 and 1989. Even after four successive Reagan tax hikes, we are still better off, especially since indexing of personal income-tax rates permanently protects taxpayers at all income levels from inflation-induced "bracket creep." Walter Mondale, in contrast, wants to postpone indexing as part of his campaign of envy.

The Republicans also offer us a somewhat freer international market. Not a *free market*, mind you—Reagan has raised barriers to imports of everything from sugar to textiles to autos. But he has firmly opposed perhaps the most destructive protectionist legislation since the Smoot-Hawley Tariff of 1930, the so-called Domestic Content Bill. The Congressional Budget Office figures the bill could trigger a trade war costing America 220,000 jobs. In contrast, Mondale calculates that many jobs as a small price to pay for the support of organized labor.

Even more important, despite its lamentable desire to meddle with the economy, the party of Lincoln apparently recognizes the importance of private economic decisionmaking. The Democrats do not. In the past always ready to spend, tax, and regulate on a grand scale, they now want to control the entire economy. A gaggle of Democratic politicos is pushing central economic planning under the rubric of "industrial policy." Their schemes vary, but all threaten us with economic disaster.

The economy, however, is not the only issue. Perhaps the only thing that could affect us more profoundly than permanent economic decline would be a war. And here the Democrats offer a more positive future than do the Republicans.

Mondale's party is not united, with left neoisolationists and cold war liberals battling for control. But at least the Democrats, in the main, abjure the arms race and want to spend a little less on the military than does Reagan, who has upped real defense outlays by more than 30 percent since 1980.

Moreover, Mondale has opposed Reagan's preparations for war in Central America. Mondale does want to keep some forces in Honduras—apparently Lyndon Johnson's heirs cannot conceive of a region without a US military presence—but he seems unlikely to order an invasion of Nicaragua. (And none of his supporters are known to drive around Washington with "Nicaragua Next" bumper stickers on their cars.) Mondale has played the role of hawk in the Middle East and elsewhere, but his rhetoric still does not match the tone of Reagan's speeches over the years.

Finally, a few Democrats, such as Jesse Jackson, have raised the issue of America's expansive and expensive global commitments, like NATO, which alone accounts for some 40 percent of the US military budget. In contrast, no leading Republicans appear ready to raise the banner of Old Right statesmen like Robert Taft, who believed America should not be defending half from the other half.

So, how to vote? We should cast our ballot for a market economic system, because it is both moral and efficient. Moral because it embodies the right of individuals to reap the rewards of their own efforts; efficient because it yields the greatest benefits for all of us. So forget Walter Mondale, who wants to plan free enterprise into oblivion.

However, we should also vote for peace. An invasion of Nicaragua, for instance, would turn this nation into an outlaw aggressor and could lead to a Soviet-American confrontation. Such foreign adventurism outweighs the little economic freedom that Reagan might leave us. Thus, he's no alternative.

Two centuries ago this country was formed amid both a military and a philosophical revolution. The armed conflict was essentially won in 1781, when the British surrendered at Yorktown. But that victory would not have been possible without an ideological triumph of a century earlier, when the British people restricted the power of the Crown. They led the Europeans in adopting the classical liberal philosophy of constitutional restraints on government, the end of mercantilism, and opposition to imperialist wars. Unfortunately, we've lost that heritage, with both major parties now committed to a growing government.

The American people again deserve a real choice, an opportunity to vote both for peace and for economic freedom. Unless we reapply the classical liberal values that underlay our republic, we have a dismal future to look forward to no matter who is elected in November.

Contributing Editor Doug Bandow is a senior fellow at the Cato Institute in Washington, D.C., and a columnist for the Copley News Service.

INVESTMENTS

Voodoo Investing

BY MARK SKOUSEN

Imagine—$2,000-an-ounce gold. Never mind that Western civilization is on the verge of collapse, you've got to think about making a killing in the market. Two-thousand-dollar gold would mean making nearly a 500 percent return on your investment if you buy gold bullion today; 3,000 percent, if you purchase South African gold shares or rare numismatic coins; and at least 10,000 percent, if you speculate in penny-mining stocks!

You've heard of voodoo economics? Well, this is voodoo investing.

Specifically, I'm referring to that incredible prediction that the price of gold will reach $2,000 to $4,000 an ounce—and silver, $100 to $200—by 1986. I suppose that it was easy for so many hard-money investment advisors to make such a prediction several years ago, when 1986 seemed a long way away. But 1984 is almost over, the magic year is less than two years away, and gold is languishing in the $300-to-$400-an-ounce range. Silver is less than $10.

Oh, I could be sympathetic with such a prognostication if it were based on the argument that a spendthrift government, throwing caution to the winds, will plunge us into a credit explosion—surely that could explain $2,000-an-ounce gold or even *$2-million*-an-ounce gold.

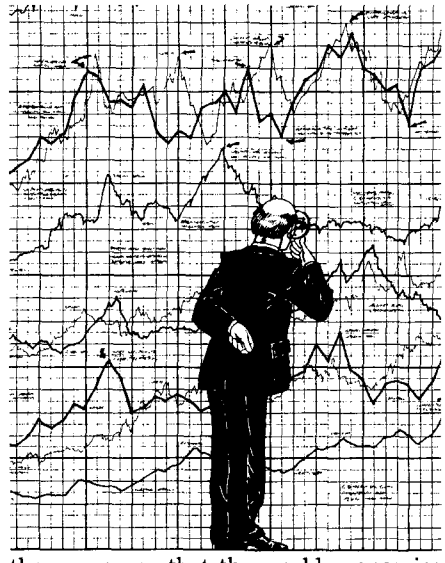
But a line on a chart? Most of these false prophets base their unfathomable forecast on the so-called six-year gold cycle.

Unfortunately for them, however, according to their charts, gold ought to be trading at *over $700 an ounce* by now! Anyone who looks at a 15-year chart for gold cannot help but conclude that the so-called gold cycle is not being repeated exactly as it has occurred in the past. It's not even close. The awful truth is that gold will *not* reach the lofty four-digit level in less than two years. Clearly, something went wrong.

To put it bluntly, technical trading systems that rely almost exclusively on past trends are bound to be foolhardy and unprofitable. They violate the simplest, yet frequently ignored, principle of investing taught by every street-corner broker: "Past performance is no guarantee of future performance."

Cycles are never exactly the same. Even the most die-hard cycle-follower will admit that trend lines are shortened and lengthened depending on various factors. For example, the run-up in gold in the 1970s was a reaction, in part, to the deregulation of gold after decades of government control. This once-in-a-lifetime effect will not be repeated.

The so-called Kondratieff economic cycle is another example of bankrupt cyclical theory. Named after a Soviet economist, Nikolai Kondratieff, the



theory argues that the world economies inevitably go through a devastating depression every 54 years or so. (Sorry, but just because Kondratieff was banished to Siberia by the Communists does not corroborate his theory—the Kremlin isn't *always* wrong!)

The first time I heard of Kondratieff's theory was when investment writers were predicting a financial crash in 1974. When that didn't materialize, the date was shifted to 1979. Then it was moved to 1982, at which time all the planets were to be aligned, combining a devastating earthquake in California with a Wall Street debacle. But the Kondratieff followers are still alive and well, pushing the date indefinitely into the future.

There are all kinds of cycle trading systems, from the naive to the sophisticated. But none works, for one simple reason: they are mechanistic and deterministic in nature. They do not take into account basic fundamental *change* in human action. They ignore, for instance, the fact that Ronald Reagan is president, not Jimmy Carter, that Paul Volcker is the chairman of the Federal Reserve, not Arthur Burns, and that inflation is low and interest rates high. Indeed, fundamental economic and political facts can and do greatly influence consumer prices, interest rates, taxes, and the value of people's investments.

In short, most of the cycle chartists ignore the fundamental principles of economics. As a practical matter, I have found that almost every technical trader who bases his investment decisions entirely on cycles has not studied on his own the principles of economics (specifically, the "Austrian," free-market school of economics à la Ludwig von Mises, F. A. Hayek, and Murray Rothbard).

This is not to say that an investment advisor should *ignore* charts or technical analysis. He should take a close look at past trading patterns, whether for gold, stocks, or commodities. In fact, my most profitable speculations have been when both the fundamentals and technical patterns were moving in the same direction. For example, in the late '70s, the Federal Reserve was acting in a highly inflationary manner and gold was starting to move up, so I purchased a lot of gold coins and made a substantial profit. Timing is everything. In this case I knew my timing was right, because both the charts and my fundamental analysis were telling me the same thing.

Technical trading systems, whether based on computerized programs or past cyclical behavior, have never proven to work over a long period of time. While they may appear to be profitable for a few years, they inevitably collapse and require reworking. If you want to make money consistently over the long term, you have to interpret correctly the fundamental economics underlying your investments. As John Templeton, founder of the most successful mutual fund in history (the Templeton Growth Fund), states, "You must be a fundamentalist to be really successful in the market."

Mark Skousen is the author of The Complete Guide to Financial Privacy *(Simon & Schuster). He and his family are living in the Bahamas.*

Illustration by Daryl Dane

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RIN

"The Issues Have Changed"

BY JOHN FUND

Businessman Martin Stone contends that he hasn't changed one bit in his 20-year political odyssey; rather, public opinion has come much more in line with his consistent stance against government intervention in economics, foreign policy, and civil liberties.

Stone, now the owner of *California Business*, the nation's largest regional business magazine, is today often considered a conservative whose monthly magazine columns support deregulation, supply-side tax cuts, and an end to business subsidies. "But that's only because the key issues have changed," he says. "When the Vietnam war was the burning issue, I was the first executive of a company listed on the New York Stock Exchange to publicly oppose it."

Stone was then chairman of Santa Monica, California-based Monogram Industries, Inc., an electronic and aerospace firm with extensive federal-government contracts, which he sold in the early '80s. "I believed we were wrong to be in Vietnam, and I still feel that way," Stone says today. "It also jeopardized the fiscal health of this country. We are still paying for it today."

Stone's political commitment took a highly visible turn when he helped set up the unsuccessful challenge of Eugene McCarthy, the former Democratic senator from Minnesota, against President Lyndon Johnson. He served as Southern California chairman for McCarthy and was vice-chairman of the state's delegation at the 1968 Democratic convention in Chicago. Stone still is bitter about the tragic events of that convention. "We worked hard only to discover the place was rigged for a Humphrey nomination," he recalls. "[Chicago Mayor Richard] Daley had his thugs everywhere, and what happened to people outside the hall was an outrage."

Stone's is a classic Horatio Alger story. He was born in St. Louis in 1928, but his father moved the family to California during the Depression to search for work. "My father didn't find much work, mostly odd jobs as a stevedore or lumberjack," Stone says. But imbued with a determination to better himself, Stone worked his way through both UCLA and Loyola Law School. He was hired out of college as a tax lawyer, by a struggling, loss-ridden aerospace manufacturer that later became Monogram Industries. By the time he was 30, Stone bought the company and shortly turned it into a $262-million conglomerate with 4,000 employees.

Stone paid a price for being politically outspoken during a time when businessmen were even less anxious to champion their views than they are today. "I was audited every year by the IRS, under both Johnson and Nixon, which cost untold amounts of money in lawyers and accounting fees." He made not one, but two, of Richard Nixon's enemies lists. A letter to White House counsel John Dean describing Stone as an anti–Vietnam war "fat cat" is framed on Stone's office wall.

MARTIN STONE

But Stone was always a strong supporter of free enterprise. "I spoke out against Johnson's War on Poverty programs when they were first proposed. I think I was right—those same government programs today just drive people into long-term poverty."

Since then, Stone has used his columns in *California Business* to promote an unfettered free market—even when the results can and have cost him money. In 1983, Stone wrote a column entitled "Deregulation is good, even if my airline is a casualty." He reported that he and two associates had purchased a commuter carrier that fell victim to post-deregulation competition. "I am firmly convinced that the airline industry and its customers will both benefit substantially in the long run [from deregulation]," he wrote. Later, Stone wrote a column calling for free-market pricing of water, although he owns an almond farm that benefits from subsidized irrigation.

Of his political philosophy Stone says, "I really don't know what I am. I don't support the idea of selling the national parks, for example. I don't believe that if the republic is in grave danger you would always be able to depend on just a volunteer army. But he is full of praise for the growing number of free-market think tanks and public-policy groups. "All the really stimulating intellectual work is going on there, not on the left as used to be the case."

Stone has helped launch what he hopes will be his own contribution to the political dialogue. He is one of the founders of *World Paper*, which bills itself as the world's first "global community newspaper." Five years old, it appears monthly as a supplement in 18 newspapers and magazines. It's published in four languages, with the motto "Letting the voices of the world speak for themselves."

What does Stone think of President Reagan? Though Stone has criticized his half-hearted efforts to cut spending and eliminate regulations, "ever since he was governor, I have supported him when he tried to reduce government," Stone says. "About four months before he was elected, we had lunch. We agreed a lot about economic issues. I also think that except for his obsession about government secrecy, he is reasonable on civil liberties."

Will Stone then, as a former McCarthy and Muskie supporter and a leading Democrat, now back Reagan? "I'm not saying," he says. "After we finished talking about domestic issues at that lunch, President Reagan upbraided me again for my opposition to the Vietnam war, and we had some pretty sharp words about foreign policy."

John Fund is on the editorial staff of the Wall Street Journal.

Photograph by Johnny Parisi

Life & Liberty

In Defense of Self

By Nathaniel Branden

A deeply unhealthy cultural trend seems to be gathering momentum in this country. I was left with this sense during a recent promotional tour for my new book, *Honoring the Self*.

We seem to be in the midst of a backlash against what is known as the human-potential movement or the personal-growth movement. There is now a tendency to dismiss as "narcissistic" any individual actively concerned with his or her personal evolution. *Self*, it appears, has become an inflammatory word.

Self-esteem, self-actualization, self-realization—even the quest for autonomy—are becoming morally suspect. "Haven't we had enough of the 'me generation'?" interviewers kept asking. "Aren't you encouraging selfishness?"

"What about the problems of the world?" they said. "And aren't you interested in going beyond the isolated individual? What about relationships?" "Don't most people have too big an ego already?"

That such questions were asked so often by television, radio, and newspaper interviewers wherever I went surely discloses something of the thinking in the country and the assumptions of a good many people. It is these assumptions I wish to challenge.

Now my message is not "Me first—with no regard for the rights of others." Rather, I explore the relationship between self-esteem and human well-being, individually and socially, and the various forces in our culture that subvert the healthy development of self.

Self-esteem pertains to the experience of being competent to cope with the challenges of life and of being deserving of happiness. It entails self-trust and self-respect. I cannot think of a single psychological problem—from anxiety and depression, to fear of intimacy or of success, to alcohol or drug abuse, to spouse battering or child molestation, to suicide and crimes of violence—that is not traceable to the problem of a poor self-concept. Of all the judgments we pass, none is as important as the one we pass on ourselves. Self-concept tends to be destiny. Positive self-esteem is a cardinal requirement of a fulfilling life. The values of individualism and enlightened self-interest, I conclude, provide the best possible basis for social cooperation, benevolence, and progress.

Ask yourself with whom you would like to share the world. People who respect your right to exist and do not ask you to act against your own self-interest—or who treat you as an object of sacrifice? People who enjoy a strong sense of personal identity—or who expect you to create one for them? People who take responsibility for their own existence—or who attempt to pass that responsibility to you?

Individualism is, of course, the tradition and animating vision of this country. Ours is the first nation in history to proclaim a human being's right to the pursuit of happiness, an idea as radical today, morally and politically, as when it was originally announced. The human-potential movement, at its best, has its roots in this tradition. It seeks to go beyond conventionally defined normality (the "well-adjusted personality"): it is oriented toward growth, expanded consciousness, the exploration of our optimal possibilities.

Self-concept tends to be destiny. Positive self-esteem is a cardinal requirement of a fulfilling life.

Yet the human-potential movement is currently being attacked as "a middle-class phenomenon," "a religion of self-worship"; its exponents charged with being self-centered, self-indulgent, and infantile. And, as already indicated, critics imply that a concern with self-realization entails indifference to human relationships and the problems of the world.

The human-potential movement is undeniably a "middle-class phenomenon." Persons who are struggling with the problem of physical survival, for whom disease and starvation are a daily issue, seldom concern themselves with "self-actualization." Such a concern is indeed ordinarily experienced by those who have achieved a reasonable degree of material well-being and want "more"—not more materially, but more spiritually, psychologically, emotionally, intellectually. The movement arose in an affluent society; it is an "American phenomenon." And here may be a difficulty: one of the most striking (and curious) traits of our intellectuals is a tendency to dismiss contemptuously anything identifiably American.

Admittedly, there is a lot about the movement that is foolish, irresponsible, even obnoxious (in some people's notion of self-assertiveness, for instance). What is particularly unfortunate is that some leaders (and followers) are antirational and antiscience, and some talk as if they wish they could repeal the Industrial Revolution. Eager to embrace emotion, they repudiate mind; eager to embrace spirit, they repudiate matter. But that is not what they and the movement are chiefly being criticized for. Indiscriminately, the clear thinkers and the arrogantly fuzzy, the profound and the pretentious, all are being attacked for the same alleged evil: a "preoccupation" with self.

It is easy enough to point to some narcissists in the movement (or any other movement). But individualism, self-esteem, autonomy, a concern with personal growth, are not narcissism—the latter being a condition of unhealthy and excessive self-absorption arising from a deep-rooted sense of inner deficiency and deprivation. Ironically, the vices typically ascribed to persons with strong egos—pettiness, belligerent competitiveness, overreadiness to take offense—are, in fact, the vices peculiar to weak egos.

I do not know of a single reputable leader in the human-potential movement who teaches that self-actualization is to be pursued without involvement in and commitment to personal relationships. "Isn't it to my self-interest," I asked my interviewers, "to find people I can love, respect and admire?" I would usually see a light bulb go on in their answering

(Continued on p. 62)

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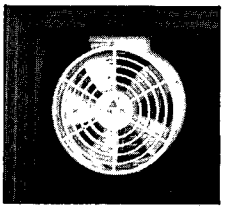

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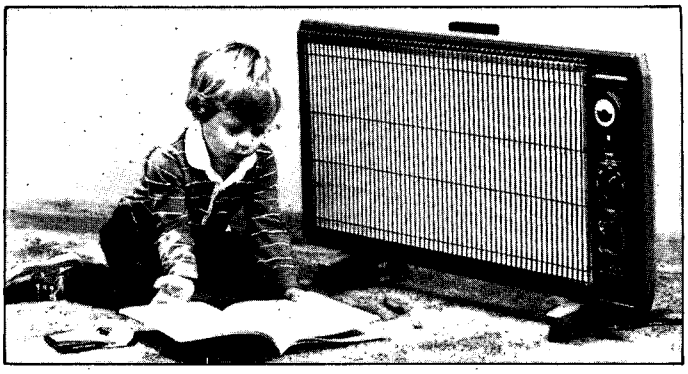
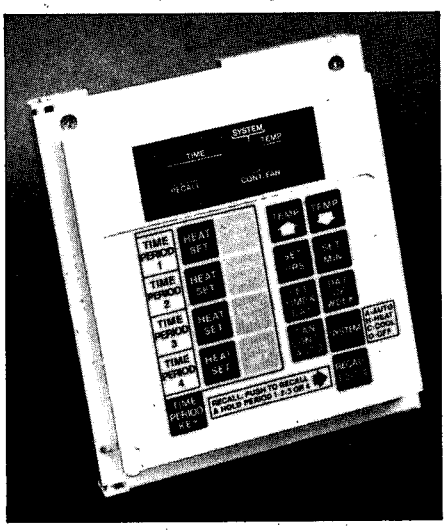


All electric heaters are bound by the laws of physics — for every watt in, you get 3.42 BTUs out. So the question is not how much heat do you get but how *comfortable* is the heat? That's where the Kendal radiant heater shines. A unique circuit has been permanently bonded to a ceramic-on-steel panel, so you get a maximum amount of heat very evenly transmitted across a large surface area. The panel always remains touchable. This solid state heater is dramatically thin — 35″ x 20″ by a mere 3″ — and can be wall-mounted or wheel-mounted. Programmable 24-hour timer turns heater on and off automatically. Choice of 1000-watt or 1500-watt operation. UL-listed. **$139.00** ($12.95) #1224. This heater without the timer costs **$119.00** ($12.95) #A12241.

THERMOSTAT THAT THINKS YEAR-ROUND



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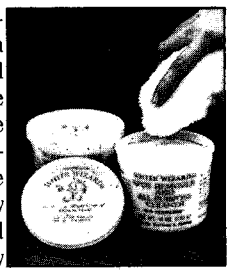

We tried White Wizard cleaner on a rug stain of several months' standing. The rug came clean. We tried it on the grass-stained knees of the kids' blue jeans. They came clean. We tried it on a necktie gravy stain. It came clean. Now it is the first thing we reach for when confronted with a grease, oil, blood, ink, berry, fruit juice, lipstick, coffee, tea, smoke or pet stain. We have found White Wizard exceedingly mild-mannered — odorless, neutral Ph, non-abrasive, biodegradable, compounded of 9 non-toxic quality chemicals. Two 10-oz. tubs of White Wizard cost **$12.00** ($2.95) #A1008.

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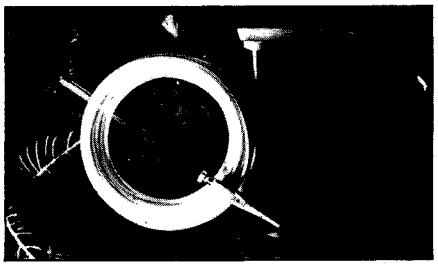

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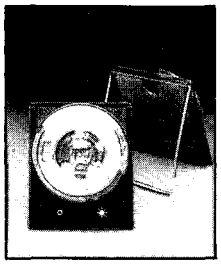

The Polaroid Corporation has brought the highway flare up-to-date with this solid-state flasher unit that gives up to 4 hours continuous flashing with a single revolutionary PolaPulse *flat* battery. Flasher cycles every 1½ seconds, high-visibility signal can be seen up to 1 mile away at night. Entire unit measures only 4" x 3½" x 1". A pair of these flashers (batteries included) for **$15.00** ($3.95) #A1253. Two extra batteries cost **$8.00** ($2.95)#A12533.

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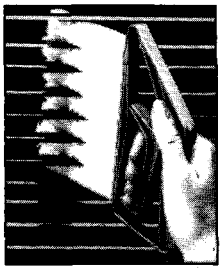

Now a California designer has finally solved the problem of how to clean venetian blinds. This tool has 7 roller fingers, 4" long and covered with a synthetic lambswool that picks up and holds dust and dirt. Pull the trigger and the fingers spread enough to slip over the blind slats (6 mini-blind slats or 3 conventional slats). Release the trigger and move the cleaner back and forth along the blind. The rollers can be removed and washed. **$9.00** ($1.95) #A787. Two for **$17.00** ($1.95) #A7872.

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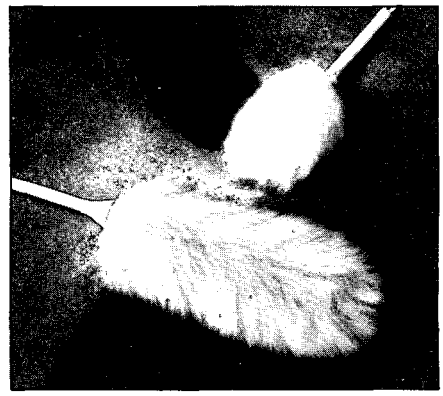

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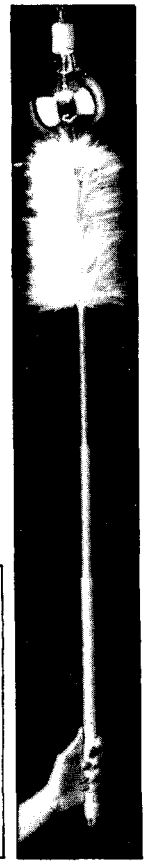

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The Book Case

Fasten Your Seatbelt: Here Comes Cuomo

Diaries of Mario M. Cuomo: The Campaign for Governor
By Mario M. Cuomo
New York: Random House
468 pp. $19.95

Reviewed by William Kauffman

"The brightest star in his party," coos the doyenne of chichi liberalism, Mary McGrory. "The most humane, most sympathetic New York Governor since Al Smith," swoons Albany savant and Pulitzer Prize–winning author William Kennedy. The "hottest property" on the Democratic block, concede right-wing columnists Rowland Evans and Robert Novak.

The man who sets these political hearts palpitating was written off as a loser by political insiders two short years ago. A run-of-the-mill paleo-liberal given to gratingly self-righteous and pedantic oratory. A hapless lieutenant governor who'd lost the only two contested races he'd ever run (the 1974 Democratic primary for lieutenant governor and the 1977 New York City mayoralty election) and who'd piloted Jimmy Carter's 1980 statewide campaign to disastrous losses in the primary and the general election. And a man engaged in a quixotic battle for the 1982 Democratic gubernatorial nomination against the redoubtable mayor and avatar of middle-class Gothamites, Ed Koch.

But Mario Cuomo had a *shtick*, and he won. He beat Ed Koch in the Democratic race with a stirring come-from-behind victory, then edged out supply-side drugstore magnate Lewis Lehrman in November. Democrats, desperate to retake the White House once the curtain closes on the Reagan reign, immediately recognized Cuomo as a candidate straight from central casting. Ethnic, Catholic, ugly-cuddly basset hound face, an orthodox liberal who seems like a regular guy, denizen of our second-largest state—perfect. You got a sneak preview when he delivered the keynote address at this year's Democratic convention in San Francisco. The full-length feature will probably be released in your state in '88.

Now none of this would be remarkable were Cuomo your basic garden-variety hack. After all, somebody has to be the Democratic nominee for president. But Mario Cuomo is different. The themes he has used to great effect in New York might revivify the Democratic dinosaur. And if they provide him with the key to 1600 Pennsylvania Avenue, prepare for four years of unyielding hostility to individual liberties. Better fasten your seatbelt, too. More on that later.

The heart and mind of the New York governor are currently on display in *Diaries of Mario M. Cuomo: The Campaign for Governor.* As the title suggests, the book is largely devoted to the voluminous and usually soporific diary Cuomo kept from late 1980 until his inauguration on January 1, 1983. When we first meet the protagonist he is Everyman. His boss, Gov. Hugh Carey, neither likes nor trusts him (he sees Cuomo as a potential rival), and his neglected wife spends much of her time whining about his measly lieutenant governor's salary.

Gov. Mario Cuomo: He conducts statecraft as though New York were his living room and its residents his prepubescent children.

Though he frets that the long hours he puts in laboring for the people of the Empire State have damaged his home life, the lure of what he calls the "beautiful profession" is too strong. Soon our hero is battling Ed Koch, Lew Lehrman, and the forces of reaction. Most of this is dull potatoes indeed, although the diligent reader may ferret out hints that Mario is motivated by more than mere power-lust. Savor this gem: "The political power one wins is good for the good it can do. The acceptance is good for the political power it gives. The joy of winning is the joy of having an opportunity to do the good."

Between lucubrations, Mario the Good spends scores of pages doling out fulsome praise for everyone from goofy Sen. Alan Cranston ("bright, progressive, pleasant") to the lowliest Brooklyn ward heeler. Virtually every man, woman, child, and household pet Cuomo came into contact with during his campaign is eulogized. A grateful winner? Perhaps. But also a savvy politician who'll need these people again in 1986, a reelection he hopes will put his name on everybody's short list two years hence.

Not to spoil the ending, but Mario wins. He describes his coalition as "labor, business, homeowners, minorities, the disabled, those who work and those who want to work but can't." (New York's Aleut population is omitted—I believe it's a publisher's error.) But don't mistake this for the usual Democratic promise-the-saps-everything triumph. For Cuomo's campaign had a theme, a *motif* that invested every nostrum he advanced and every speech he gave with a dignity rare in politics. Mario spoke of the family.

His own family is, by all accounts, exemplary. Momma and Papa Cuomo were Neapolitan immigrants who entered this country penniless and illiterate and, with equal parts of love, thrift, and hard work, built a respectable grocery business in Queens. Their children were raised in the Catholic Church, whence Mario apparently acquired a missionary zeal to do good for others. Indeed, he believes Christianity demands its votaries "try to do good things for other people. . . insistently." An eminently worthy *raison d'être*—for a private citizen.

Alas, Cuomo conducts statecraft as though New York were his living room and its residents his prepubescent children. He fused his militant do-goodism with his reverence for the kinfolk to produce the most arresting political metaphor of the decade—the Family of New York. Just as the Cuomos shared their burdens and blessings, so must New Yorkers begin "feeling one another's pain, sharing one another's blessings, reasonably, equitably, honestly, fairly." If such sharing strengthens the family, asks Mario, "why shouldn't that be true for polities as well?"

Of course, the difference is that

Photograph courtesy New York Press Office

transfers of wealth within a family are voluntary and are motivated by love and generosity rather than by the fear of arrest and imprisonment. Moreover, we make the transfers directly and assist only those whom we deem worthy of assistance. Few families employ welfare bureaucrats to skim 40 percent off the top.

But if Cuomo is blind to the glaring flaws in the metaphor, so are the many New Yorkers entranced by the Good Governor. He won statewide approval for a $1.25-billion infrastructure bond issue to pay off his brothers in the building and construction trades unions, then satisfied environmental faddists by signing a bottle bill requiring a five-cent deposit on beer and soft drink containers. He allied himself with the neoprohibitionists in an effort to raise New York's drinking age to 21 (before the federales commanded it anyway), and Naderites across the land are still applauding New York for being the first state to make buckling one's seat belt mandatory. Almost always, the family metaphor is invoked.

His diaries suggest Mario the Good would govern the nation as he has the state, dismissing individualist objections to his coercive schemes as the selfish babblings of misguided children. The economy would be regulated by a benevolent father who considers Felix Rohatyn his economic guru and who, when confronted with a deserted steel mill in Lackawanna, New York, that was laid low by high taxes, excessive wages, and imbecilic management, solemnizes that "all around us there are evidences that we have failed as a society to do all the good things we could have done." The national defense would be in the hands of a fellow who supports the nuclear freeze "to reaffirm the simple truth that peace is better than war because life is better than death." And you'd better believe that if the kids aren't public-spirited enough to volunteer to keep that peace, Dad'll send 'em to the neatest summer camp you could ever imagine.

A man who really believes that "ever since Adam and Eve, human nature has needed to be coaxed into doing the right thing" is to be pitied. A candidate for president who believes that is to be feared.

William Kauffman, a former legislative assistant to a US senator, is now a graduate student in political science at the University of Rochester.

Free-Trade Romance

Come to Me, Megan
By Ellen Garwood
Alexandria, Va.: Cameron Press
184 pp. $14.95/$8.95

Reviewed by Laurence Beilenson

Seventeen-year-old Megan Delane, the daughter of a merchant prince in the cotton business, is a suffering wallflower at a country club dance in the strange-to-her city of New Orleans on Christmas Eve, 1919. From this beginning, the novel fades back to Megan's girlhood in "Gaitree," Oklahoma, goes forward through her education at a college in the North, and ends with her engagement.

From the elegance of Galatoire's restaurant to the miserable poverty of the *batture* (sandbar) dwellers, the New Orleans scenes roll by in vivid colors, smells, and sounds. And France, too, vividly emerges as Megan's friend, Pierre, describes to her his France: "Along the Loire, white fairy castles on hills...loom in gentle rises over a valley of green mist. Even the bridges crossing the river are poems...."

It is not, however, New Orleans or France, but the people of the small town of Gaitree who take the reader into the author's captivating world of romance. "It's a pioneer town in the heart of this continent," Megan tells Pierre after she has left Gaitree. "There's a zing in the air. A zest, a spirit of challenge to everyone to prove his best." No less real because Megan's imagination invests the town with a spirit of derring-do, Gaitree has all the vices as well as the virtues.

The author's fictional Gaitree is Oklahoma City during its developing years when it had not yet thrown off its Indian affinity. The original Americans still exerted a strong influence on its culture. The town is not one of the old ones that took root in the early 19th century, as did many of the river towns of Arkansas and Mississippi. Founded by the '89ers when Indian territory was opened to white settlers, Gaitree nonetheless embraces the broad culture of the South.

The story centers on Megan's family. Her father, the cotton merchant, Phil Delane, is obviously the famous Will Clayton, who in fact and in the novel championed free trade and the southern farmer, who was held down by the limits placed on free trade.

The cardinal anomaly of international free trade is that it has never been tried, at least for long. Governments always have intervened—not ostensibly against trade, to be sure, but against its freedom and thus indeed against trade. Phil Delane suffers from no illusions about the real-life obstacles to making his dream come true. He says about his hopes: "I'd like to sell directly to the European spinners someday. Create a direct line of transit, with as few intermediaries as possible. Save cost. Handle the farmer's cotton as cheaply as we can, so as to encourage production, develop the country—help clothe the poor, everywhere. With freer trade, even frictions that cause war can be stopped." Then in sober fact he discusses the round bale of cotton, more compact than the square bale, "and you could get more of them into the holds of the European steamers." But "the train freight to eastern ports [is], unfairly, no less expensive than for the square bale which [is] so much bulkier and heavier."

Delane goes on: "Still, what can you expect? Ever since the Civil War the North has controlled freight rates. The same thing with tariffs on foreign goods. The agricultural South and Southwest—in fact, the whole country, the *world*—

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suffers. Simply from artificial barriers to trade. Not until Wilson have we had any respite."

Wilson was only a respite. With freight rates and tariffs, Congress discriminated against the South until at least the late '30s of this century.

Phil Delane skillfully maneuvers within the system while attempting to change it. A man who knows no surcease from work, he sometimes loses sight of his ever-supportive wife, who is more for alleviating individual suffering than for the cause of free trade. Megan feels keenly her father's neglect but recounts with sympathy the conspiracies of Phil Delane's enemies and his triumphs over them.

However interesting Phil Delane is as the protagonist of free trade, in the novel he is only a supporting character to Megan, a girl with her father's determination but with a delicate sensitivity that he never fully understands because of his own concentration on his work. The charm of the novel lies not only in the world around Megan but in the inner

Book Hints

a selective mention of books received for review

Recently the President's Private Sector Survey on Cost Control, headed by businessman J. Peter Grace, issued 47 reports containing over 2,000 cost-cutting recommendations for the federal government. Summarized in a single volume, the results of the reports are now available in paperback form to the public in *War on Waste* (New York: Macmillan, 608 pp., $9.95 paper).

For a look at the revenue side of government, *Taxation: An International Perspective*, edited by Walter Block and Michael Walker (Vancouver, Canada: The Fraser Institute, 447 pp., $14.95 paper) compiles essays by economists from nine countries who examine the tax systems in their own countries. They offer concrete evidence of how high taxes burden individuals and thus the economy and result in the emergence of a substantial "underground economy."

On a lighter note, the political satire of the famed journalist H. L. Mencken is now available in a new edition of *A Carnival of Buncombe: Writings on Politics* (Chicago: University of Chicago Press, 370 pp., $10.95 paper). A dash of Mencken's wit also appears in his introduction to *The American Democrat*, by James Fenimore Cooper (Indianapolis: Liberty Classics, 252 pp., $10.00/$5.00). The new edition reintroduces the shrewd political insight of Cooper, better known to the American public for his Leatherstocking tales.

The works of another often-forgotten 19th-century free-market individualist, William Leggett, have been compiled by Lawrence H. White in *Democratick Editorials: Essays in Jacksonian Political Economy* (Indianapolis: Liberty Press, 410 pp., $12.00/$6.00).

In *On Freedom*, edited by John A. Howard (Rockford, Ill.: Rockford Institute, Greenwich, Conn.: Devin-Adair, 161 pp., $12.95), several leading international scholars discuss what freedom is and why it's important for a proper functioning of modern economies. In the preface, distinguished sociologist Robert Nisbet comments that the collection provides "a thoughtful and eloquent testament to the role of freedom in modern civilization."

Two monographs published by the American Enterprise Institute in Washington, D.C., shed light on some philosophical and cultural dimensions of capitalism. Professor of Islamic studies Muhammad Abdul-Rauf examines the compatibility of the Islamic religion and capitalism in *A Muslim's Reflections on Democratic Capitalism* (74 pp., $4.95 paper). And philosopher Bernard Murchland looks at the anticommercial bias in the writings of mainstream 19th- and 20th-century humanists and criticizes the notion that humanism and capitalism are antagonists in *Humanism and Capitalism: A Survey of Thought on Morality and the Economic Order* (63 pp., $3.95 paper).

London's Institute of Economic Affairs has published several pathbreaking works on free markets and privatization that are available in the United States through Transatlantic Arts (Albuquerque, New Mexico). In *Liberating the Letter* (52 pp., $5.95 paper), Ian Senior builds a case for privatizing the British post office, with an analysis that applies equally well to the US postal system. In *Choice in Pensions* (79 pp., $9.95 paper), E. Victor Morgan criticizes existing government pension schemes. He argues for a system that would leave individual citizens free to decide how they use their savings, how much and when they save for old age, and where they would invest their savings.

Investigating the prospects for private property rights in seabed resources, D. R. Denman claims that such arrangements are both feasible and desirable in *Markets Under the Sea?* (79 pp., $9.25 paper). In another Institute of Economic Affairs monograph, *Myth and Reality in Anti-Trust* (32 pp., $4.25 paper), British economist Arthur Shenfield challenges some long-held myths regarding antitrust legislation.

Challenging another set of long-held assumptions—those pertaining to labor unions—economist Charles W. Baird criticizes compulsory unionism, closed-shop laws, and the like in *Opportunity or Privilege: Labor Legislation in America.* (Bowling Green, Ohio: Social Philosophy and Policy Center, 97 pp., $6.95 paper). Baird argues that these government-supported policies have resulted in windfalls for some workers at the expense of the majority of nonunionized labor.

Widening our knowledge of privatization abroad, John Tepper Marlin describes the role of contracting out many government activities to private companies in Japan in *Privatisation of Local Government Activities: Lessons from Japan* (New York: Aims of Industry/Council on Municipal Performance, 17 pp., 1.20 British pounds, paper). Also with a focus on local issues, *Creating Neighborhood Enterprise: A Primer for Nonprofits* (Washington, D.C.: National Center for Neighborhood Enterprise, 48 pp., $2.00 paper), prepared by Mark A. Thennes, describes how nonprofit social-service agencies can develop a business-oriented approach to improve their ability to meet local needs.

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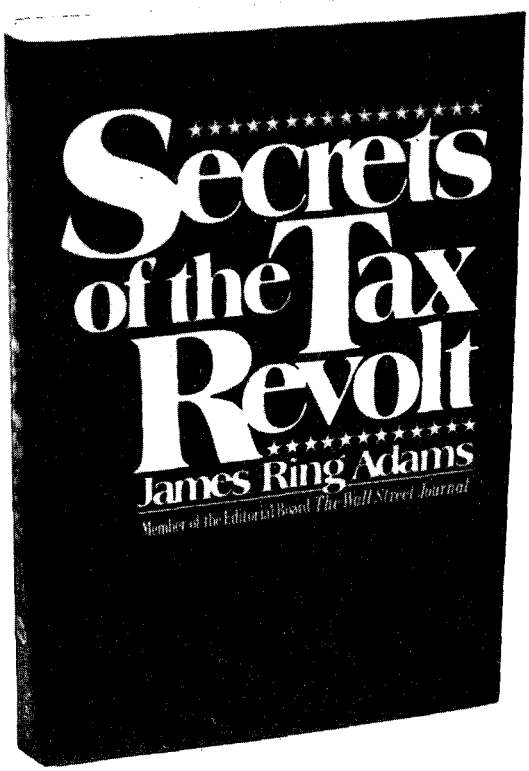

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world of her mind, her spirit, and her heart.

They are filled throughout her girlhood and her teens with Danish Rolf Kroel, the son of the owner of the Gaitree drug store, a classical musical genius, a composer, and an inspired pianist. He returns Megan's love, but the financial difficulties of his father are a constant source of difficulty for Rolf. Megan hopes her father will help with money, but something always prevents the infusion.

Rolf's father, the town's former mayor, becomes a drunkard, jealous of his devoted wife's love for her son. To save his mother from his father's rage, Rolf accompanies his uncle to a small fishing village on the North Sea, where they make their living as fishermen. It is hard, demanding work. Despite occasionally playing at Copenhagen's Tivoli Gardens, Rolf loses his touch on the piano among the fish pots.

Rolf has affairs with some of the pretty Danish girls, but he regards them as casual. In the end the magnet of Megan pulls him back to Gaitree.

The spell of Rolf gradually diminishes for Megan. Pierre, somewhat older, introduces her to a new world—a Gallic world of art, literature, and an ancient but alive civilization. "Going back very, very far. . . . The bridges are reminiscent of the Roman aqueducts. Before the Romans—the Gaulois. Then the Visigoths. Later the Franks and Normans and Burgundians. And here in this cafe, . . . we French—here we are again."

A wounded flyer of World War I who had volunteered at 17, been shot down, captured, and escaped, Pierre becomes a naturalized American citizen and an executive of Delane and Company. He is patient in his courtship of Megan, impeded by her absence to attend college in Boston, but he makes full use of her vacations in New Orleans. His rival is her memory of Rolf, around which she has built her whole emotional existence. In the end, Megan discovers that she loves Pierre as fully as he has loved her for so long.

Young or old, the reader will relive with author Ellen Garwood her journey through the early years of our century. They may not have been "the age of innocence"; they were certainly the age of romance for which we all yearn.

Laurence Beilenson is a retired lawyer and a historian who has written several books on international relations, including The Treaty Trap *(1969) and* Power through Subversion *(1972).*

Labor's Strong Arm

Power and Privilege: Labor Unions in America
By Morgan O. Reynolds
New York: Universe Books
266 pp. $14.95

Reviewed by Mark S. Pulliam

Labor unions in the United States have succeeded like no other interest group in staging a public-relations coup. Consider that the media, government, the academic community, and the general public generally perceive the interests of organized labor to be synonymous with the interests of workers as a group; that unions are popularly regarded as necessary to correct the "inequality of bargaining power" between individual employees and corporate employers; and that the so-called right to strike has attained an unchallenged status as one of the basic components of a free society.

Yet each of these perceptions, which have been keystones of national labor policy in this country since the 1914 Clayton Act and the 1935 Wagner Act, is empirically and theoretically unsound. Nonetheless, only a handful of contemporary economists have recognized the errors of these policies. In the last 30 years the mainstream of economic thought has departed from the view that, in the words of Harvard economist Edward H. Chamberlin, "the public interest requires the imposition of major restrictions on the monopoly power of labor." In its place is the now-dominant position that unions play a necessary and positive role in mediating the harsh forces of modern industrial life.

Morgan O. Reynolds, a professor of economics at Texas A&M University, is at present the most prolific and articulate spokesman of the minority viewpoint that unions backed by federal labor laws represent undesirable concentrations of economic power and impediments to competition. In *Power and Privilege*, Reynolds updates and supplements many of the classic themes propounded by his predecessors, such as Henry C. Simons, W. H. Hutt, and Sylvester Petro.

Reynolds's thesis, familiar to those who have been following his previous work, is simple: Labor unions, relying on the coercive powers of government, act as monopolists in various ways. They demand the involuntary membership or financial support of individual workers (through "agency fee" or "union shop"

"Unions," Reynolds writes in POWER AND PRIVILEGE, "are fundamentally cartels—groups of producers with sectional interests diametrically opposed to those of consumers. Unions are labor OPECs."

agreements). They compel employers to negotiate exclusively with the union on behalf of *all* employees performing defined types of work (through "exclusive representation" and mandatory collective bargaining). They prevent willing individuals from peaceably accepting voluntary employment on terms refused by the union and its members (through picketing, strikes, and their attendant violence). In the words of Reynolds, "Unions are fundamentally cartels—groups of producers with sectional interests diametrically opposed to those of consumers. Unions are labor OPECs."

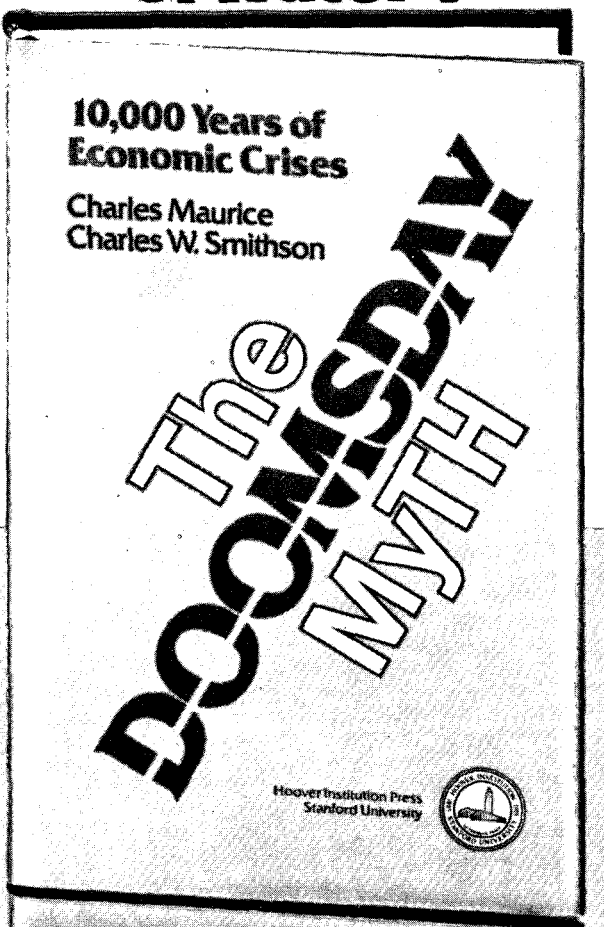
Reynolds manages to do what many economists (and, for that matter, lawyers) are unable to do: he explodes the myths of union rhetoric in a style that is both engaging and comprehensible to a lay audience. He explains how labor unions have so effectively captured the political process (particularly the Congress) despite their representing only a small fraction of the total workforce. The answer lies in the potent incentives of labor cartels to restrict wage competition and the federal government's unique ability to confer those and other legal privileges by legislative edict.

The "spoils" are enormous. Reynolds observes that American labor unions "collect more than $5 billion annually in dues, fees, and assessments." Thus, it is not surprising that "unions are the largest organized political group in terms of manpower and money."

Reynolds's insight into academic and intellectual support of unionism is keen. In his 1975 edition of *The Theory of Collective Bargaining*, W. H. Hutt observed that "even the great Alfred Marshall became woolly" when confronted with the practice of wage bargaining and the implications of strike power. "Like their fellow intellectuals whom they have influenced, [economists'] sympathies have all too often ruled their minds," according to Hutt.

Reynolds does not let the intellectuals off so easily. In his view, the pro-union sympathies of academics, like most phenomena, can best be analyzed in economic terms. There is an elaborate "collective bargaining industry" that supports lawyers, arbitrators, government bureaucrats, and—not incidentally—professional aggrandizement of the academic-intellectual community. Hence, many academics like former Secretary of Labor Ray Marshall are, in effect, professional advocates of the interests of organized labor. (As Reynolds notes, the pro-union bias of modern intellectuals is not a recent development. Even Adam Smith displayed "a garbled sentimental-

What if we ran out of water?



Societies have experienced resource shortages throughout history, many as bad and some worse than the petroleum shortages in the 1970s. But as Charles Maurice and Charles W. Smithson of Texas A & M University demonstrate, government programs didn't solve these resource crises. The crises ended because the free market worked.

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ity toward unions" when he indulged in the popular notion that individual employees lack equality of bargaining power vis-à-vis employers.)

Lest the reader think that *Power and Privilege* is brimming with stridency and shrill polemics, be assured that Reynolds's analysis of collective bargaining, unions, and labor legislation is thorough, erudite, and fastidiously accurate. He explores the economic, historical, and legal aspects of union activity with remarkable comprehensiveness, synthesizing these disciplines to produce what may be the best (certainly the most readable) single volume on the subject. Ample tables, appendices, and footnote references reveal the breadth of scholarship compressed into 266 pages of text.

Reynolds is surely correct when he states that "a loss of nerve in the intellectual, academic, and political communities has long exempted unionism from the normal scrutiny directed at interest groups like corporations and bureaucracies." Now, when the Marxist "critical legal studies" movement is gaining influence among law school faculties, balance is needed more than ever. Reynolds's forceful critique of the prevailing pro-union orthodoxy demonstrates that individual workers and consumers would be better off in a free labor market.

The prescription Reynolds writes out for the anticompetitive maladies wrought by the innumerable state and federal laws regulating employment is simple and specific, but admittedly unrealistic: "The right thing to do is to deregulate. . . . Repeal, abolish, rescind, revoke, and do away with [federal labor legislation]. . . . Restore the rule of law in labor relations. . . ." Although this solution does not seem politically feasible in today's climate (even with some union leaders' rumblings about wanting what they call deregulation), one hopes that an informed electorate could eventually overpower the special interests of organized labor.

Power and Privilege is both inspiring and depressing—inspiring because Reynolds challenges and debunks the prevalent myths surrounding the institution of collective bargaining; depressing because these myths seem so well entrenched that reform is literally an Augean task. I am reminded of Henry Simons's gloomy prophecy 40 years ago: "Monopoly power must be abused. It has no use save abuse. . . . Here, possibly, is an awful dilemma: democracy cannot live with tight occupational monopolies; and it cannot destroy them, once they attain great power, without destroying itself in the process. . . . A community which fails to preserve the discipline of competition exposes itself to the discipline of absolute authority."

Mark S. Pulliam, an attorney practicing in San Diego, represents employers in labor matters.

Socialists in Clerical Collars

The Kindness That Kills
Edited by Digby Anderson
London: SPCK Press
170 pp. 3.95 pounds

Reviewed by Antony Flew

In my young days, in the '30s and '40s, leftists, of whom I was one, used to jeer at the Church of England as "the Conservative Party at prayer." Even then that was misleading. For it was a period when William Temple, lifelong socialist and member of the Labour Party, was archbishop of York and later of Canterbury. He, however, was always scrupulous to insist that those commitments were personal, that other equally sincere and instructed Christians could and did hold contrary political and economic views.

All that has changed utterly. Most of the individual mainstream churches (including now the Roman Catholic Church, as well as the World Council of Churches, the British Council of Churches, and in the United States the National Council of Churches) are forever issuing anticapitalist statements and aligning themselves with all manner of socialist and even specifically Marxist-Leninist causes. *The Kindness That Kills*—which we must hope is the beginning of a new wave, and not in Britain only—is edited by the director of a fresh offshoot, the Social Affairs Unit, of the promarket antiestablishment Institute of Economic Affairs.

Digby Anderson and his 16 other contributors launch a general offensive against 24 publications of varying degrees of authority. These are attacked as "sloppy, ill-thought out, ignorant, one-sided, addicted to secular fashions, uncritical of conventional 'progressive' wisdom, hysterical. . . and, most deplorable, uncharitable to those who disagree."

As with all such collections, the essays vary in quality, while much of what is most usefully said consists in truths that would be bound to seem truistic to many readers of REASON. But two things are very much worthwhile even for us. One is hair-raising information about the dangerous rubbish put out nowadays even in the most supposedly authoritative of church statements. The other is scholarly argument showing how mistaken it is to draw socialist conclusions from the Bible.

For the first, take two specimens from Roman Catholic sources, one from the secretary-general of the Conference of Latin-American Bishops, the other from the Encyclical *Octogesima Adveniens* of Pope Paul VI (pope from 1963 to 1978): "The United States and Canada are rich because the peoples of Latin America are poor"; and government—wait for it!—"always intervenes with careful justice and with devotion to the common good for which it holds final responsibility." Both of these two manifestly false assumptions are commonplaces of the contemporary social gospel, although the second in all its grotesque absurdity can rarely have been stated quite so brazenly.

What is not obvious at all is that any such socialist social gospel can, as frequently claimed, be legitimately derived from the New Testament. Christian socialists, at a loss to explain how in presenting the Parable of the Talents, Jesus failed to seize his best chance for denouncing capitalism and the profit motive, have preferred to concentrate on the Magnificat and the story of the rich man and Lazarus.

In the Parable of the Talents (Matthew 25:14–30), Jesus tells of a man who, going on a journey, entrusts portions of his property to three servants. Two of the three servants increase its value by using it to do business. The third buries his money, alleging that his master is greedy and would take everything the third man could earn with it. Upon the traveler's return, the first two are praised and rewarded for their efforts, while the third man is castigated as guilty both of failing to use what had been given him and of slandering his master.

But the Magnificat and the story of the rich man and Lazarus are more suitable to the socialists' purposes. In the Magnificat (Luke 1:46-55), Mary speaks of God sending the rich away empty and filling the hungry with good things. The story of the rich man and Lazarus (Luke 16:19-31) tells the fate of a rich man who dies and goes to hell, while the poor and ailing Lazarus dies and is carried to the angels.

William Oddie deals faithfully with

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both appeals in a chapter entitled "Christian Socialism: An Old Heresy?" Once we look back at the Old Testament passages to which the Magnificat is alluding, it becomes clear that the references are not to the economically rich or poor but to those who are rich or poor in some more spiritual understanding. As for the story of the rich man and Lazarus, Oddie offers a devastating quotation from St. Augustine, putting down a Pelagian heretic known as the Sicilian Briton: "And if the poor man's merit had been his poverty, not his goodness, he surely would not have been carried by angels into the bosom of Abraham, who had been rich in this life."

The main ground on which I would fault Anderson and his team is that they are all too kind, too concerned to show to their opponents the Christian charity that those opponents have rather conspicuously not been showing "to those who disagree." This excess of kindness is displayed in two directions.

In the first place, although some contributors hint, none presses home the harsh moral that should be drawn from the uncritical one-sided perspective of the target Christian publications. People who offer any policy as a means of securing some end perceived as good—such as, for instance, the reduction of poverty or of unemployment—must be anxious to monitor the success or failure of their policy as a means to that end. Insofar as they willfully refuse to do this, and even ignore evidence suggesting that their policies will not in fact produce these stated results, then we have no option but to conclude that their devotion to those originally stated ends is—shall we say?—something less than wholehearted. Perhaps they have somehow become so personally involved in those policies that their implementation has now become for them a "good" in itself? Or perhaps they are trying to curry favor with people devoted to the same policies for quite other and less-creditable reasons?

The second excess of kindness lies in scarcely even hinting that there might be doubts about the authenticity of the Christian commitment of any of the socialist document writers. But, in a period afflicted by so many "liberation theologians" believing in neither God nor liberty, these are questions that neither can nor should be shoved under the rug. It is today the most open of secrets that many priests of all denominations have lost their faith, without feeling any need to resign their orders; and it would seem that many of these, especially within the church and interchurch bureaucracies, have replaced a Christian with a secular socialist commitment.

How else, after all, can we explain the now surely notorious Third Worldly antics of that UNESCO-in-clerical-collars, the World Council of Churches? Or the education statement dissected in *The Kindness That Kills* that, after repeating all the self-interested stock-in-trade falsehoods from the teachers' unions, proceeds most carefully to utter not one word about either religious education or the British Labour Party's malignant threat to destroy all independent schools?

Antony Flew teaches philosophy at the University of Reading, England, and York University, Toronto. His most recent book is God, Freedom, and Immortality *(Prometheus).*

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(Continued from p. 51)

smile. "Isn't it to my self-interest to live in a safer, saner, better world—and to try to bring such a world about?" No rational person has ever imagined that honoring the self entails solipsism.

The polarization of self and others, or self and the world, implicit in so many of the responses I received, has no valid basis in reality. Indeed, there is overwhelming evidence, including scientific research findings, that the higher the level of an individual's self-esteem, the more likely it is that he or she will treat others with respect, kindness, and generosity. People who do not experience self-love have little or no capacity to love others. People who experience deep insecurities and self-doubts tend to experience other human beings as frightening and inimical. People who have little or no self-esteem have nothing to contribute to the world.

Now in the light of all this I must ask, Why do the concepts of self-esteem and self-actualization—that is, personal goals—strike some people as so ominous? Why are only "social" goals respectable?

The answer, I believe, lies in the failure of many of us to emancipate ourselves from an authoritarian notion of ethics that always places its vision of "the good" outside the individual. Almost all ethical systems that have achieved world influence have been variations on the theme of self-surrender and self-sacrifice. Unselfishness is equated with virtue; selfishness is made a synonym of evil. In such systems, the individual has always been the victim, twisted against him or her self and commanded to be "unselfish" in service to some allegedly higher value—Pharoah, Emperor, King, Tribe, Country, Family, the True Faith, the Race, the State, the Proletariat, or Society.

We would more readily understand the willingness of so many people to submit themselves to one kind of authority figure or another if we remembered how almost all of us were introduced to the

word *good.* "He's a good boy—he minds me, he behaves." "She's a good girl—she does what she's told." From the beginning, we are instructed that virtue consists not of honoring the needs, wants, and highest possibilities of the self, but of satisfying the expectations of others.

Today, with the rise of feminism, women are beginning to awaken to the fact that this doctrine is manipulative and exploitative. Imagine the response if a lecturer told a group of modern women, "Don't think of your own needs and wants—think only of the needs and wants of those you serve. Self-sacrifice is the highest virtue." I believe that men, no less than women, need to take a fresh look at this doctrine as it affects their lives. In generating victimization, it is no respecter of gender. The issue is global.

The tragedy is that any number of men and women struggling with issues of self-realization feel helpless and intimidated by accusations of "selfishness." If "selfishness" means "concerned with one's self-interest," *of course* the pursuit of self-esteem and personal growth is selfish. So is the pursuit of physical health. So is the pursuit of sanity. So is the pursuit of happiness. So is the pursuit of your next breath of air.

Until we are prepared to respect an individual's right to his or her own life—until we understand that every person, ourselves included, is an end in him or her self, not a means to the ends of others—we cannot think clearly about the deepest meaning of the personal-growth movement. We will be stuck in debates at the superficial level of media-generated nonsense about the "me generation."

Until we are willing to honor the self and proudly proclaim our right to do so, we cannot fight for self-esteem—and we cannot achieve it.

Nathaniel Branden is the author of several books, including The Psychology of Self-Esteem *and* Honoring the Self.

LETTERS

(Continued from p. 8)

atively small part of the budget. We must cut other spending, such as defense, welfare, etc. This, Douglas shows no evidence that an inexperienced Congress would be any more likely to do.

Note that seniority among congressmen started climbing in 1910, while government did *its* growing in wartime and during the Great Depression. Average seniority has been *declining* for the past decade or so, which is not the case for the government. The two factors are not related.

Experienced or not, Congress—and government in general—knows it can rob Peter to please Paul, with a percentage for itself. No limit on terms is going to change that.

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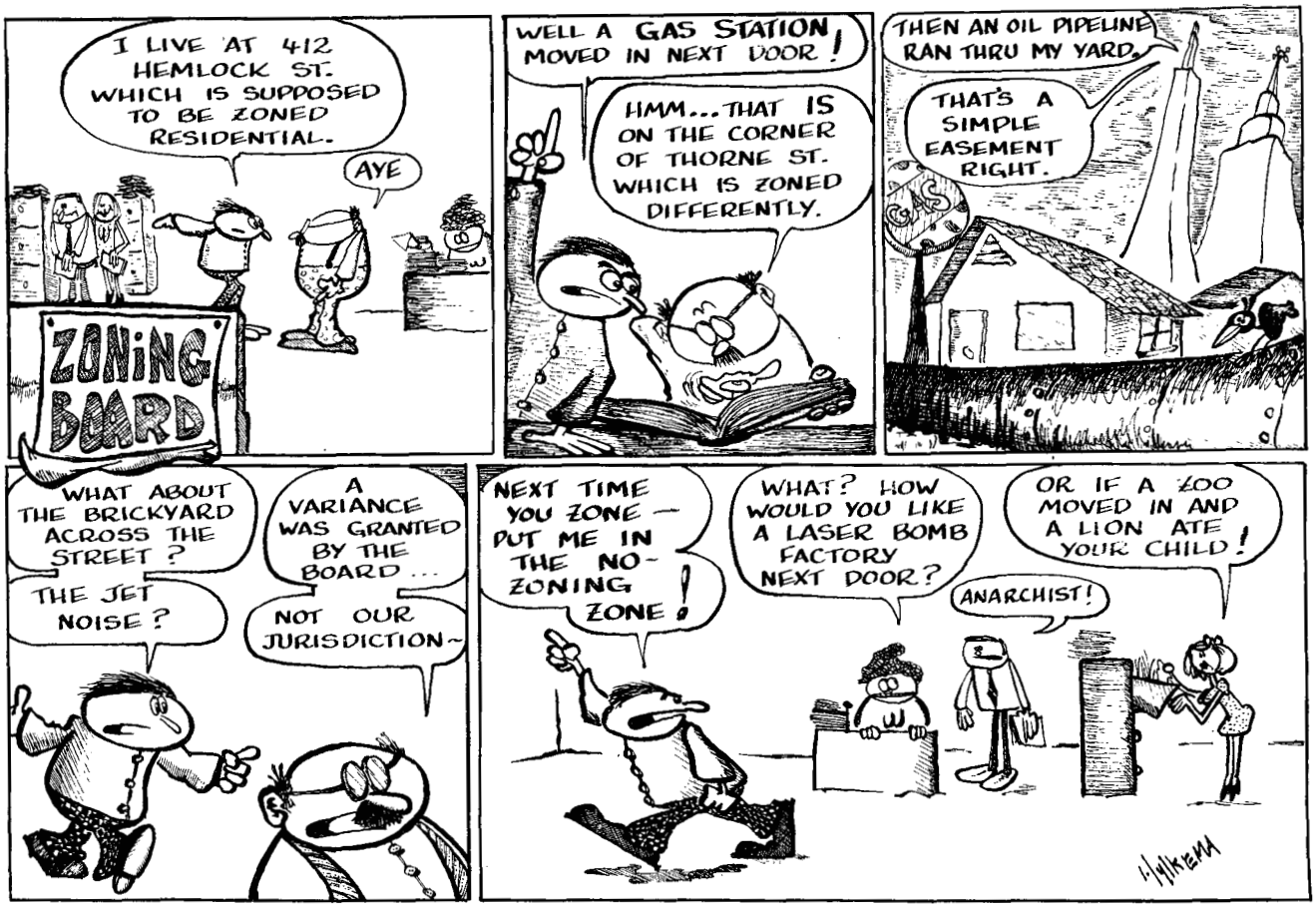
I LIVE AT 412 HEMLOCK ST. WHICH IS SUPPOSED TO BE ZONED RESIDENTIAL.
AYE
ZONING BOARD
WELL A GAS STATION MOVED IN NEXT DOOR!
HMM... THAT IS ON THE CORNER OF THORNE ST. WHICH IS ZONED DIFFERENTLY.
THEN AN OIL PIPELINE RAN THRU MY YARD.
THAT'S A SIMPLE EASEMENT RIGHT.
WHAT ABOUT THE BRICKYARD ACROSS THE STREET?
THE JET NOISE?
A VARIANCE WAS GRANTED BY THE BOARD...
NOT OUR JURISDICTION~
NEXT TIME YOU ZONE— PUT ME IN THE NO-ZONING ZONE!
WHAT? HOW WOULD YOU LIKE A LASER BOMB FACTORY NEXT DOOR?
ANARCHIST!
OR IF A ZOO MOVED IN AND A LION ATE YOUR CHILD!
HYLKEMA

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AIRPORT CONGESTION CHOKES ON BUREAUCRACY

For a short time, it looked as if the buying and selling of airport landing slots—the specific times throughout a particular day that an airplane can land or take off—might gain a foothold despite Federal Aviation Administration (FAA) rules against such sales. In July, the bankrupt carrier Air Florida agreed to sell its landing slots at National (Washington, D.C.) and LaGuardia (New York) airports to Eastern Airlines, for $3.5 million, gaining it needed cash to resume limited operations. But the FAA quickly moved to squelch the rescue plan, even though the agency is currently still considering a proposal—supported by both the Justice Department and the Office of Management and Budget—to allow slot sales.

As reported earlier in REASON (Trends, June-July, p. 18), paralysis has set in on the bureaucratic system of allocating slots among the airlines. This is partly responsible for increasing airport congestion and flight delays (see "How to Ground Plane Delays," Editorial, Sept.). So bad was the situation that a group of airlines led by Eastern petitioned the FAA for immunity from the antitrust laws to be able to negotiate schedule revisions among themselves rather than face government-imposed revisions. Allowing slots to be bought and sold would be a much more economically rational way to divvy up landing slots, but in August the Justice Department's antitrust division reluctantly agreed to a limited form of the airlines' plan.

Meanwhile, there have been some noteworthy additions to the continuing debate over airport congestion and flight delays. A recent Office of Technology Assessment (OTA) study examined a major cause of congestion and delays, peak-hour demand: high use of airports at popular arrival and departure times overburdens flight lanes, airport facilities, and air traffic control capacity. To spread flights throughout the day, the OTA study suggested, airports might set landing fees based on the demand for particular times: peak-hour fees would be higher; off-peak rates, lower.

New York City's airport congestion, which is about as bad as it gets, has driven the *New York Times* to consider "market incentives" to relieve congestion. Letting "airlines buy and sell their peak-hour slots," a recent *Times* editorial advised, is "better than letting committees of bureaucrats or airline officials decide." And the editorial specifically endorsed a New York Port Authority plan to auction peak-hour slots at the cities' airports to the highest bidders and to lower rates for non-peak slots. "The airlines would presumably pass the higher cost of peak-hour service—and lower cost of non-peak service—on to passengers," the *Times* wrote. The editorial concluded that "incentives do seem to promise a way to achieve the best possible service for passengers." Maybe someday the FAA will reach the same conclusion.

WITH A GRAIN OF SALT

Trends reported in the October issue ("Saline Solution," p. 17) that the widely believed link between salt consumption and high blood pressure was called into question by a recent study. In fact, the study found, hypertension appears to be related to *low* salt intake. Further evidence for this surprising finding is accumulating.

In August, *Science* magazine reported on two studies indicating that hypertension may be related to insufficient calcium rather than to excessive sodium. And in Britain, a letter in the internationally respected journal *Lancet* from a group of medical researchers agreed that "the evidence that blood pressure is reduced by cutting down on salt is contradictory."

This srengthens even further the case for individuals being free to look at the evidence and make their own decisions about salt. But that does not faze consumer-protectionists in this country who would impose their views on others. Urged on by such groups as the Center for Science in the Public Interest, the Food and Drug Administration recently announced that beginning next year, the sodium content of many processed foods must be listed on their labels. Paradoxically, in the light of growing doubts about a salt-hypertension link, a government official said that the new FDA regulations are especially beneficial to people with high blood pressure, who need to reduce their salt intake.

AND MORE

• *Free ride.* In what could be a blow to the private development of satellite-based navigation and air traffic control systems, the US government has decided to offer international civilian use—at no charge—of its Navstar Global Positioning System. Developed by the Air Force for military use, the Navstar satellite system will be made available "free" to civilian users because of the widespread fear that followed the Soviets' downing of a Korean airliner last year. Meanwhile, as was reported in Trends in February ("Keeping on Course—Public or Private?" p. 20), physicist Gerard O'Neill's Geostar Corporation is continuing with development of its more-accurate and lower-cost system despite the Navstar decision.

• *Injustice not pruned.* In "Harvest of Power" (Sept. 1983), Patty Newman described how the "good standing" provision of the Agricultural Labor Relations Act in California grants farmworkers unions the power to have a farm worker fired from his job if he or she violates union rules—a power far greater than what unions have under federal law. Unfortunately, "good standing" has now withstood a recent court challenge. In August, the California Supreme Court unanimously denied a request for a hearing on an appeals-court ruling that had upheld the coercive doctrine.

• *Unleash labor?* AFL-CIO President Lane Kirkland, calling labor laws a "dead letter," is the latest union boss to speak out for labor deregulation (see "Labor Singing a Different Tune," Oct., p. 12). If deregulation has been good for industry, he told the *Wall Street Journal*, "maybe it would be good for us. We're the only exception to industry craving deregulation." As our October Trends item noted, Kirkland and some other union leaders, in calling for labor deregulation, are reacting to what they see as decreasing sympathy for unions at the National Labor Relations Board, which enforces federal labor law.

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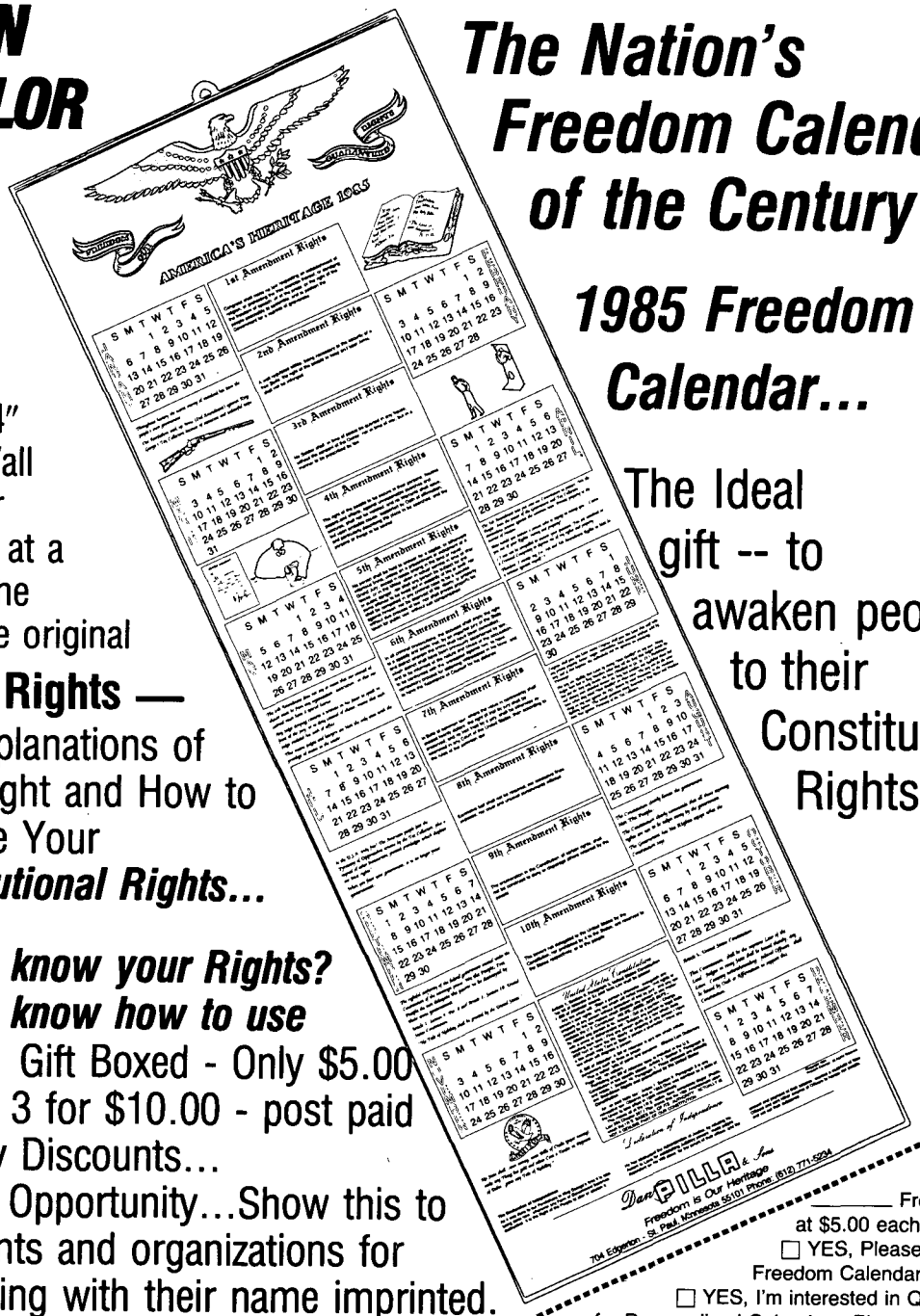

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